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INVESTORS' SERVICE ANNOUNCEMENT

THE BOND BUYER'S GUIDE

CRISIS IN THE TOBACCO INDUSTRY

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THE OUTLOOK

Liberty Bond Conversions—A Guaranty Against Declines—The Rails as Investments—Business Conditions—The Market Prospect

WHILE the campaign for the sale of the second Liberty Loan will keep that subject actively before the public until the subscription lists are closed, Wall Street, with its custom of anticipating the future, regards it as settled that the loan will be a great success and that the sale of the bonds will be achieved without any serious disturbance of the money market.

This result could not be attained if any considerable number of people should assume that, owing to the good prospects for the loan, their own subscription would be unnecessary; but patriotism and the growing realization of the seriousness of the job we have before us will doubtless prevent that mistake.

Nearly all the 3½ per cent bonds of the first Liberty Loan, which are held by persons of moderate incomes, will be converted into new 4 per cents. Some investors are inquiring at precisely what yearly income the convertible privilege ceases to be valuable. It is impossible to decide that question because it involves the duration of the war.

An Investment Guaranteed Against Decline

A FEATURE of the Liberty Bonds to which attention is not often called is that, since they are convertible into any succeeding bond issue at a higher rate of interest, they are practically guaranteed by the Government against any decline of importance, while on the other hand there is a very strong probability that they will eventually sell at a good premium.

Corporation bonds convertible into stock are often spoken of as a form of security which has at the same time the safety of a bond and the speculative possibilities of a stock. These convertible Liberty Bonds have a far stronger guaranty against decline and since the credit of the U. S. Government has usually ruled around a 3 per cent basis it is clear that a 4 per cent U. S. bond has a splendid prospect for higher prices under peace conditions.

An investment of that character is very attractive at a time when there is so much uncertainty as to the effect of the war on the prices of other securities. No one can set limits to the decline of investment securities such as high grade and other corporation bonds because no one can foresee the duration or cost of the war. And the combination of price-fixing and burdensome taxation leaves investors very much "up in the air" in regard to the value of the stocks even of those industrial corporations which are doing a capacity business.

Rail Prices Very Low

THE situation in regard to railroad stocks is somewhat different from that affecting other corporation securities. It is discussed elsewhere in this issue, but the subject is so broad that it is impossble to cover it from every angle in a single article.

One element in the recent weakness of railway stocks has undoubtedly been

Liberty Loan Committee's banner suspended in Nassau Street looking north (upper left), Sub-Treasury in Wall Street with the historic Washington statute on its steps (upper right), and three of the very artistic posters for the 2nd Liberty Loan.

the section of the War Tax law providing for a 3 per cent tax on all freight. Some investors hastily assumed that this was another burden on the roads. But a more careful reading of the law showed that this tax would be paid by the shipper.

October 29 is the date fixed by the Interstate Commerce Commission when the roads may apply for a further increase in freight rates. The Commission promised to "keep in close touch with operating results" and in substance stated its willingness to raise rates if that step seemed necessary.

So far as most of the roads are concerned, it is not likely that the Commis-

sion will as yet see the necessity of a further increase, but on some of the Eastern roads which have been hardest hit by the rise in costs of operation and by traffic congestion, higher rates would seem to be equitable and it is by no means impossible that they may be granted.

More Distant Prospects

WHAT will happen to the railroads after the war? They are intimately bound up with the prosperity of the country—more intimately than ever before. As a simple matter of self interest, we as a people cannot afford to oppress the railroads, and that fact is much better understood now than in the past.

It is hardly conceivable that the higher efficiency in handling traffic which is now being achieved by the Government's Railroad Board should ever be entirely lost, even after the war is over.

But even with that greater efficiency, it is evident that the growth of the railroads has not kept up with the growth of their traffic. A great deal more capital can be economically and profitably applied to railroad development. The National City Bank strikes the key-note when it says, "The Government's relation to the railroads up to this time has been wholly restrictive, but the time has come when it ought to be also constructive." It suggests that an extensive program to develop and improve our transportation system be prepared for announcement at the close of the war, "so adjusted and carried out as to take up all the industrial slack for years to come," by the aid of Government credit.

Business Conditions

UNCERTAINTY as to the effect of price-fixing; a serious shortage in fuel —partly the result of the very low price fixed for bituminous coal; continued lack of transportation facilities in many sections, and labor troubles in various lines, have checked production to some extent. Pig iron output for September was the smallest since November, 1915, with the exception of the short, cold, snowy month of February. The copper trade is in a tangle over contracts made before the price was fixed at 23½ cents a pound.

Current mercantile trade is brisk but buyers are cautious about forward deliveries. Marshall Field & Co. have recently offered cotton goods under the prevailing market on the ground that the present high price of cotton is speculative only.

The labor situation is disquieting. The latest 10 per cent raise granted by the American Woolen Co. makes a total advance of 53 per cent since January, 1916, and mill wages throughout New England have risen more than 40 per cent within two years. Higher wages mean higher prices, which are then the basis for a demand for still higher wages. Construction work of all kinds has become very difficult.

Yet none of these difficulties are due to the lack of business—rather to too much business.

The Market Prospect

THE immediate outlook for the stock market in general can only be said to be in doubt. The steel and copper men themselves are busy trying to figure out where they stand. There is a slow investment absorption of various stocks, especially of the best rails, but there is no evidence that large financial interests are planning any early speculative moves. On the contrary, they appear to be waiting the development of events.

Our opinion in regard to the wisdom of accumulating the sound railroad issues for investment remains unchanged. These stocks may of course sell lower, but they are already low, and the time to buy is when they are on the bargain counter regardless of temporary fluctuations.

—October 8, 1917.

BUSINESS AND FINANCE SERIES

No. 1—The Tobacco Industry

Crisis in Tobacco Trade—Where the Disturbed Situation Is Leading—Price Cutting, Labor Troubles and War Taxes

By ARTHUR B. MacATTAMMANY
Editor, *The Retail Tobacconist*

[Editor's Note.—Herewith we present the first article in the Business and Finance Series which will run for a number of months and will cover every important industry. The first installment, written by a recognized authority in each industry, will cover that particular field in a broad way, summarizing recent important developments and pointing out what is indicated for the future. The second installment, which will appear in the following issue, will analyze the leading securities representing that industry.]

THE tobacco industry as a whole is beclouded more than at any time within memory.

But the big business branches within that industry are sailing along with flying colors. They will continue to prosper and to pay heavy dividends.

It's the cigar end of the tobacco business that is having its serious set-backs.

An unlooked for frost in Connecticut has wrought a million dollars worth of damage to the now famous and always sought-for "shade grown" Connecticut leaf which is nurtured under cheese cloth to protect it from the harsher climate of this temperate zone. Shade-grown wrapper from the nutmeg State is transplanted from Cuba and it is this outer covering of the cigar that has been erroneously termed "mild Havana."

Rising Costs Lead to Combination

In Tampa, the greatest cigar manufacturing city in the United States, a walk-out of all cigarmakers, strippers, wrappers and packers is expected at this writing. Not only do the workers in that tropical city demand more money; they agitate for the recognition of their union; for the closed shop, and for the right to despatch their own delegates into all the factories at a stated time daily and to issue their orders from within the factory walls.

The cigar manufacturers look with more or less indifference upon this state of affairs. The cost of materials for cigar manufacture has jumped to almost prohibitive figures; boxes, lithographing, leaf, cigar making, freight rates, revenue taxes; in fact everything has jumped. Some grades and kinds of tobaccos have reached the high-water mark in price; nothing has ever been known like present costs. The nickel cigar with a Sumatra wrapper that used to sell at $28, $30 or at the most $35, and that to the jobber, now costs according to actual factory sheets, somewhere between $34 and $36 to make.

What is this desperate situation leading to? Why, to an era of combination. Independent concerns are merging in twos or in threes. They want to buy in

greater quantities and thus cut expenses through "insides." Such mergers effect a saving in sales staffs, for one corps of salesmen can sell the several brands.

The larger combinations, such as The American Tobacco Co., the Liggett & Myers Tobacco Co., and the P. Lorillard Co., are all heavy producers of cigars of one kind or another. But these big combinations are making much better profits from domestic smoking tobaccos, the blends of which are all made up from the tobacco fields of Virginia, the Carolinas, Louisiana (perique), Kentucky, and States that surround those named.

They are also reaping a rich harvest from their blended cigarettes, as well as from their paper rolls made of the pure Turkish product. There is a quite heavy reserve of Turkish leaf on this side. The Tobacco Products Corporation is a heavy holder of it; but the reserve supply of the other great companies is just as heavy.

Further illustrating the tendency toward combination, it is reported that the Tobacco Products Corporation and the United Cigar Stores Co. are really getting together, as Wall Street has predicted for weeks that they would; that the United stock is to be taken over by a holding corporation at 140; that the business in China of Tobacco Products is of such tremendous proportions that a promoting prestige is easily assumed; that George J. Whelan is pulling the strings, (he recently returned from China) that "Products" has already acquired two more cigarette factories in Greater New York and two large cigar manufacturing concerns, one of which operates a chain of retail stores; that the United Cigar Stores Co. has procured options on two chains of stores and if it acquires such chains it will eliminate competing stores in all locations.

As yet these epoch-making events are still in the field of rumor, but they are certainly in line with the tendencies of the trade.

The Coupon Situation

Now about the coupon situation: Much rumor is heard concerning it. It has been reported lately that the United Cigar Stores Co. would discontinue the use of coupons entirely. That report is an old one. The cost of maintaining the coupons by the United Cigar Stores Co. has been heavy, but don't forget that the coupon branch is now a thing apart—a going corporation on its own bottom, which parcels out coupons to gum combinations, to manufacturers of patented articles and all kinds of other merchandise; keep in mind too that this coupon concern pays handsome dividends all its own.

George J. Whelan, the creator of the United chain of cigar stores, and the originator of this great coupon company, once told the writer that he could buy in heavy bulk at prices that were sometimes less than twenty-five per cent of the established retail price of premiums of almost every kind.

"Only on solid silverware and cut glass are we parried from getting premiums at a fractional part of the price they bring at retail," said Mr. Whelan. "Of course the coupon collector gets what would be the retail value, for he could not buy for any less. We seldom have to buy seconds. The prices we pay for shaving brushes and watches would make people sit up and take notice. We can get watches for something like forty cents and as for shaving brushes that go over the counter for fifty cents —we can buy them at less than 12 cents."

An ingenious lay-out, truly. The coupon has made the United stores, by Mr. Whelan's own admission.

Now it is also reported that the Schulte chain of cigar stores, which are located in New York, Chicago, and several other cities—108 links in all—are to do without their quite-recently-introduced coupon known as the "Mutual." It's unlikely. The Mutual coupon is catching on.

Coupon systems grow—that is retail systems—only where there are a great number of stores covering a considerable space of territory. Thus do they capture the consumer wherever he is; but the coupon systems that are adopted by individual merchants in cooperative movements never seem to succeed—at least in the cigar trade, and perhaps in every other line—because the merchants do not work in unison—because they get easily discouraged, for no coupon sys-

tem shows signs of redemptions at the outset—and, further, because they are short-sighted enough to hold back the coupons from those customers who do not ask for them.

Price Cutting

Closely connected with the coupon system is the one great crisis that confronts the trade in general—price cutting. Almost every other commodity has been price-raised to readjust itself to greater costs of production. That has not been true of tobacco products until quite recently.

Especially on the retail end has there been cut-throat competition in price-cutting. The Riker-Hegeman stores have been selling cigarettes over the counter at retail less than the smaller man can buy them at wholesale—before the latter begins to figure his margin of profit and his store rent. The "gratis" deals of the United Cigar Stores Co. and of the Schulte chain of stores, in which double, triple or quadruple certificates have been thrown in, has irritated the small dealer until he has slaughtered prices to retaliate. The result is that the smaller man has been reduced to such a state that if he inventoried his stock one out of every three of his class would be bankrupt.

But even the chain stores have now had enough of price-slashing, it seems. The Riker-Hegeman chain has raised prices; the United recently adopted a new schedule of prices. The Schulte chain of cigar stores, which extends all the way to Chicago, has fallen into line.

The Cigar Manufacturers' Board of Trade of Greater New York has called together delegates from all associations of retailers in the greater city, including those of the Bronx, of Harlem, of Queens County and of Staten Island. These delegations have met in general conference to raise prices.

The small retailers will have to raise or go out of business. The more intelligent of them are beginning to see the handwriting on the wall. More than twenty retail stores in Greater New York are changing hands or entirely going out of business every week in the year. The auctioneer's red flag is getting to be a familiar sight in front of cigar stores.

Some manufacturers are beginning to reduce the size of their cigarette packages; thus having fewer smokes to the container. Some put eight cigarettes in a package that once contained ten, while others insert but fifteen cigarettes in containers that heretofore have held twenty.

Labor Troubles

Strikes here, strikes there, strikes everywhere, in the cigar factories of Greater New York and other sections—that's the basis of action of the workers at present.

While this is being written eight factories on the East Side of New York are either suffering from strikes or have just effected settlements with operatives.

The unions are showing great ingenuity by striking in only two or three factories at a time; rather than to pursue the old time tactics of a general walkout. No cigar manufacturer wants a closed shop with his competitors working over-time; however little he might object to a general closing all around, for he is losing money now and is several months behind on deliveries.

The General Cigar Co., which operates over forty factories and makes Robert Burns, Owls, and other famous brands, recently faced a demand of one dollar more a thousand cigars. The concession was granted before the employes left their seats.

In every instance the strikers have won. They claim that milk is 14 cents a quart and that everything else has been raised in proportion; that they cannot live on the present scale of wages; and the manufacturers have seen the justice of the claims, despite the fact that the latter must dig into their cash reserve to keep things going until the inevitable price-raising movement sweeps the trade away from the rocks of a deficit.

What applies to independent factories does not necessarily apply to the cigar factories of the larger business combinations, which have their own jobbing houses and retail stores; nor does it ap-

ply to certain grades and kinds of cigars which still assure a fair margin of profit.

Some Interesting Prospects

An interesting prospect is opened up by the report that the large store-chains are going into the mail order business, especially in those States where anti-cigarette laws are being enforced. Of course cigarettes can be transmitted from one State into another via the mails, and the prohibitory statute of a State does not have application as against Uncle Sam's mail order regulations.

Another outlet for cigarettes having almost unlimited possibilities is in China.

The Tobacco Products Corporation now has a branch in Shanghai, from which great quantities of cigarettes are distributed annually throughout the empire. In the fiscal year ended June 30, 1917, there were exported from the United States a total of 6,000,000,000 cigarettes, of which more than 4,000,000,000, or two-thirds, went to China. That quantity represents the business transacted with the "Coolies" by the Tobacco Products Corporation and the British-American Tobacco Co.

Approximately 50,000,000,000 cigarettes are consumed in China every year. That is more than twice the cigarette consumption of the United States during 1916, so it may readily be seen that there are almost unlimited opportunities for expansion in the future.

Effect of the War Taxes

The taxes placed on cigars, cigarettes and tobacco by the War Revenue Bill just passed, are perhaps no heavier than the trade had expected. The large manufacturer will simply readjust his prices to cover the additional taxation, but small manufacturers and small retailers will have more trouble in doing this without loss of trade.

Stocks in retail stores to be exempt from taxation include 1,000 cigars, 1,000 cigarettes and 100 pounds of both tobacco and snuff. That provision is disappointing to the retail trade. In the Spanish-American war a heavy exemption was granted.

In this provision of the bill the big store-chains will be much the gainers over individual cigarists. The chain stores can multiply their claims for stock exemption up to a fine and fancy figure. For instance: If the United has 800 stores and several hundred agencies it can multiply the stores and agencies by 1,000 cigars, 1,000 cigarettes and 100 pounds of both snuff and tobacco; Schulte can multiply the tobacco stock allotments just listed by 108, for he has that number of stores. Again the big store-chains can turn over their stock several times within the thirty days allotted to dispose of exempt stocks, and thus gain greatly on the smaller retailer who cannot. The chain-store operators can manipulate their stocks to a precise nicety and figure just when to stop "loading up" with exempt goods, just prior to the exemption of the thirty days.

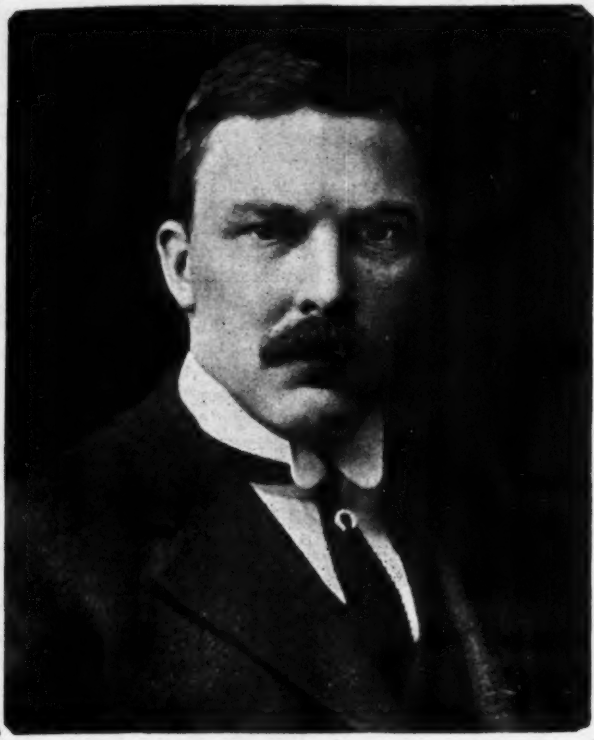
The advantage under this new system of taxation for war revenue, as well as the advantage in manufacturing, distribution and sales, seem to be entirely with the big business concerns.

Consumption Increasing

In conclusion it may be said that the tobacco trade is facing a siege of adverse conditions which have cropped up at every juncture from the growing of the leaf to the selling of the finished product.

It is the belief of manufacturers, jobbers and retailers that things will readjust themselves; that those in the tobacco business cannot continue to cut their selling prices in the face of the higher cost of everything, including their own living, and with about every other line of industry jacking up prices to a very substantial degree.

The great public is smoking more and more as the years fly by. If everybody isn't smoking it's next door to it. The women are adding their modest mite to the grand total of consumption. Tobacco, once viewed as a luxury, is now upheld by the courts as a necessity, and was it not Oscar Wilde who said that the only real necessities are luxuries and that necessities proper are the easiest things in the world to go without?



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EDITORIAL

Why You Should Buy Liberty Bonds

FIRST, it goes without saying, because you are an American. Your country is at war. It makes no difference now how or why it went into the war, or whether you think it ought to be at war. The war is a fact. If you are an American you want to do all you can to help your country win. If you do not want to do that, you are not an American.

Second, if you have money to invest it is your duty and your pleasure to bear cheerfully your share of the cost of the war. You wish to do that because you are patriotic—but, in addition to that motive, what will your money be worth to you if your country suffers defeat?

Third, Liberty Bonds are a good investment. They will eventually sell at a substantial premium, and since you buy them at par that premium will represent your profit. They are tax-exempt up to $5,000 par value, no matter what your income may be. If you are not subject to the super-taxes of the income tax they are tax-exempt to any amount. As a tax-exempt bond yielding 4 per cent, they return you a good interest, even regardless of any future premium.

And it must not be forgotten that the high super-taxes of the present law are war taxes purely and will end with the war, while the 4 per cent interest on your bond will not end with the war. So the bonds are a good investment for everybody, and especially good up to amounts of $5,000 and for persons of moderate income.

Fourth, if you have no money to invest now you have the satisfaction of knowing that you are performing a double service toward winning the war by cutting down your unnecessary expenses or working a little harder and increasing your earnings, and thus paying for your bonds out of your current income. In that way you are doing more than if you bought your bonds out of past accumulations—for it is perfectly clear that the war must be won by our present efforts. The country whose people work and fight the hardest will win.

You and I may not be called to the front or may not be qualified to go, but that does not prevent us from working to win the war. By paying for our bonds out of current earnings and savings we are applying our energies directly and practically to the one great object which now supersedes all others, personal or national.

So there are plenty of reasons why YOU should buy Liberty Bonds.

Price Fixing and the Steel Outlook

How the Government Scale Will Affect the Industry—Importance of Labor Costs—Probable Earnings of Leading Stocks

By LOCKWOOD BARR and ROSWELL F. MUNDY

BIG business is caught between the upper and nether millstone of excess profits on the one hand and price fixing on the other. The stock market is dazed in its efforts to readjust itself to the new order of things. No sooner can the market bring itself to believe that prices so far fixed by the Government will allow reasonable profits than it meets with the shock of attempting to figure how much of these profits will remain for dividends.

The worst of the uncertainty now existing is that complete schedules have not been announced, and until this is done business men are inclined to hold back from any further commitments. This deadlock is nothing new in the trade, for it is just what has been going on for the past two months or more. Take the prices fixed by the Government for the steel and iron industry, for example, and let us analyze them as far as we are able to go. That may not be very far, but it will afford some clue to the action of the stock market with respect to the prices of the steel stocks.

Government Prices

The Government base price of $33 a ton for valley pig iron appears to apply to what is known as No. 2 foundry and basic. Pig iron varies in its grades and districts. Since price fixing was announced sales of bessemer have been reported to have been made to a Mahoning valley steel maker at $36.30 valley. That is 10 per cent. over the Government base figure and represents the differential which has existed for years of this grade over foundry and basic.

The various trade papers carry quotations on over 50 different grades of pig iron. Recently the prices ranged from the low of $30.95 for gray forge Pittsburg to the high of $85 a ton for low phosphorus Pittsburg. Apparently all these 50 different grades must be based on the $33 ton price fixed by the Government and to that price must be added or subtracted the differential existing.

The prices of $2 for coal, $6 for coke and $5.05 for iron ore are as indefinite as the official price for pig iron. Coke is graded according to its purity. Ore is sold at a price corresponding to the percentage of iron content and chemical analysis. It is not reasonable to expect that the Government in fixing the price of $5.05 for iron ore meant that ore running 65 per cent. iron and low in impurities should sell at the same price as ore running 40 per cent. iron and high in impurities.

Pig Iron as a Basis

Starting with ordinary pig iron at $33 as a basis for figuring costs of steel ingots, prices in all fairness should also be fixed upon other elements which enter into the manufacture of steel. That will be conceded without argument by every one with the possible exception of Labor, and, incidentally, the labor cost is after all the most important cost. No prices were fixed for scrap iron, refactories, ferro-manganese and other things of like nature, all of which are incidental to and necessary in the making of steel and have material bearing upon costs and prices.

The conversion cost of open hearth, steel under present war conditions could hardly be less than $8 to $10 a ton and rolling mill costs $6 to $10, dependent upon the size and character of the steel product to be rolled. At the Government price for steel bars of $2.90 per hundred weight, steel shapes at $3 per hundred weight and steel plates at $3.25 per hundred, there ought to be a reasonable profit for the steel concerns. It will be remembered that early Wall Street guesses made before the prices were an-

nounced centered around $68 a ton for steel. Steel products are usually sold per gross ton of 2,200 pounds. The Government price for bars equals $63.80 a ton, steel plates $66, and plates $71.50, which is an average of $67.10 a ton.

The Steel Corporation and others of the larger concerns own all of their raw materials. Under normal conditions,

TABLE I

Comparison of Pig Iron Prices

The representative grades of pig iron and finished steel products as they are selling today under the Government price fixing schedule, compared with the prices of September 1 before the schedule went into effect, and also with prices of a year ago.

	Per ton		
		Average	
Grade of Iron	Oct. 3, 1917	Aug., 1917	Oct., 1916
Bessemer, Pittsburgh ..	37.25	55.55	24.33
Basic, " ..	33.95	55.25	20.83
No. 2 Foundry " ..	33.95	55.55	21.08
No. 2 " Chicago..	33.00	55.00	19.15
Malleable, " ..	33.00	55.00	19.50
Southern Ohio No. 2 Ironton	33.00	55.00	19.38
No. 2X Virginia Furnace	33.00	51.90	18.50
No. 2X Foundry, Phila.	33.75	53.40	20.75
Ferro Mang. Del'v'd.....	337.50	400.00	162.00

	Per 100 lbs.		
		Average	
Classification	Oct., 3 1917	Aug., 1917	Oct., 1916
Steel Bars, Pittsburgh.....	2.90	4.00	2.60
Steel Bars, Chicago	2.90	4.50	2.80
Beams, Pittsburgh	3.00	4.50	2.70
Beams, Chicago	3.00	4.94	2.80
Tank Plates, Pittsburgh...	3.25	8.80	3.00
" " Chicago	3.25	9.59	3.19

certain of these companies can manufacture pig iron at a cost under $10. War conditions have naturally added to costs, but the raw materials in the ground have not changed for them except to the extent of the increased cost of labor, mining and transportation. Assume the extreme and say that cost of production of pig for these companies has doubled and is now $20 a ton. That would still leave a margin of profit with the Government price at $33 a ton. Similarly in converting pig iron into steel and in rolling the steel into products there ought to be a fair profit for those companies which have brought their plants up to efficiency through the liberal appropriations out of earnings which have been made since the war began.

Small Companies

The smaller concerns which must purchase pig iron, coal, coke and other raw materials in the open market may have difficulty in competing with the big companies at the prices fixed.

There is a phase of the situation which is worthy of study in this connection. Steel being delivered now is at prices contracted for some time in the past.

Freight rates have always been a factor in prices of pig iron and steel products and allowance for this differential must be made. As yet the Government has made no announcement on this important subject. As pig iron is generally figured as base in Pittsburg, a differential of $4.90 a ton freight must be added for iron from Birmingham district. The expectation is entertained that existing freight differentials from valley territory will be determining factor in existing prices in other districts. This freight rate schedule is now being worked out in Washington and it is hoped that it will be forthcoming shortly.

Summed up, the condition in the steel and iron trade when the Government stepped in and fixed prices was about as follows: Every plant was working at capacity upon business booked during 1915 and 1916 at prices then existing. The demand for immediate deliveries continued to grow and prices rose accordingly. Prices existing, at the time the Government fixed its maximum, represented the estimate of the trade as to future costs based upon the demands of labor and the rising tendencies of everything in which labor costs figured.

The steel concerns have made money during the past two years and a half—more than in any period of their history. The Government has fixed prices which look ridiculously low because we unconsciously compare with present nominal quotations for future deliveries, and yet when analyzed are eminently fair in comparison to prices being received now for deliveries being made now. If money has been made at these prices then it should be made at the

Government prices, for the balance of the price fixing program will doubtless be as fair and equitable in every particular except Labor.

Problem of Labor

The attitude of Labor is a difficult problem. This war will be won by men in factories as much as by men in trenches. One cannot help but wonder how long it would take a colonel in our army to order his regiment shot at sunrise if his soldiers struck for more money and held up the success of an attack until their pocketbooks were satisfied. Yet we read almost every day of labor striking for higher wages while production of materials necessary for the prosecution of the war must wait. Our crying need is for a genius who can inspire and organize Labor into a National Army of Production comparable in *esprit de corp* to that army of our young men who have seen their duty and shouldered the rifle.

Phenomenal profits for corporations may not be a thing of the past, but excess profits laws and price fixing policies will see to it that phenomenal surpluses available for dividends are things of the past. The rates of dividends now being paid by the majority of steel concerns will be easily earned under the new conditions which must be met, but whether it will be the part of wisdom to pay out the present percentage of profits in dividends will rest with the discretion of the directors as they see conditions in the future.

It is pertinent to point out that dividends which have been paid and are now being paid by the steel companies are ultra-conservative when compared to profits. A study of the dividend record and the earning power for the past ten years of the representative steel companies will be enlightening as to how badly stockholders have fared. These figures are set forth in Table II.

1917 Earnings and Prospects

Earnings so far this year indicate that 1917 will result in as good a showing as 1916, if not better. It will be many months before the full effect of price fixing and excess profits laws will become evident in the earnings of the steel companies. Old contracts at the old high prices will be carried out and the amount of Government business which can be turned out at the new prices will be negligible, by comparison, for the remainder of this year. Mills cannot take new business, except from the Government, at any price for some time to come or at least until contracts now upon the books have been completed. So for the time being stockholders of the steel concerns have no basis for fears of smaller dividends because of decreased earnings.

We are facing a period of financial and economic readjustment without any precedent from which to draw parallels. Inefficient and weak corporations as well as weak and inefficient individuals must make way for the efficient.

The balance of power to make or break rests with Labor. How well it sees its duty is for Labor to decide.

TABLE II

Earnings and Dividends Per Share of Common Stocks of Five Representative Steel Companies

Year ended	United States Steel		Bethlehem Steel		Republic Iron & Steel		Lackawanna Steel		Crucible Steel	
Dec. 31	Earned	Paid	Earned	Paid	Earned	Paid	Earned	Paid	Earned	Paid
1916.....	$48.46	$8.75	$286.30	$30.00	$47.67	$1.50	$34.81	$9.00	$45.89	None
1915.....	9.96	1.25	112.50	None	6.50	None	6.93	None	5.39	.....
1914.....	def.	3.00	32.60	.....	0.56	.....	def.	$1.00	def.	.....
1913.....	11.02	5.00	27.50	.....	4.97	.....	7.93	None	12.84	.....
1912.....	5.71	5.00	6.90	.....	1.78	.....	2.90	.....	6.81	.....
1911.....	5.92	5.00	6.80	.....	0.75	.....	0.24	.....	3.37	.....
1910.....	12.23	5.00	6.60	.....	4.24	.....	7.29	.....	7.39	.....
1909.....	10.59	4.00	def.	.....	4.95	.....	2.24	.....	1.24	.....
1908.....	4.03	2.00	def.	.....	0.81	.....	def.	.....	def.	.....
1907.....	15.60	2.00	3.90	.....	8.47	.....	7.04	.....	3.40	.....
An'l av'ge..	$12.32	$4.10	$47.45		$4.73		$6.11		$7.54	

MONEY--BANKING--BUSINESS

Leading Opinions

About Financial, Investment and Business Conditions

Big Men on The Big Loan

As was to be expected, the official announcement of the second Liberty Loan occasioned nation-wide comment of a favorable character. We present herewith extracts from observations by leaders in politics, business and finance.

Secretary McAdoo.—"The task of providing the thirteen to fourteen billions ended this year is stupendous," he admitted, "but our resources are adequate, the will is perfect, the spirit indomitable and success certain."

Mr. McAdoo, reviewing the resources of the country, placed those of all the banks, national and State, at 37 billions. In the Civil War they were about 1½ billions, yet the banks raised three billions by bond sales. On the same basis, Mr. McAdoo said we should now be able to raise 74 billions in government loans, though he would not say this amount would be needed.

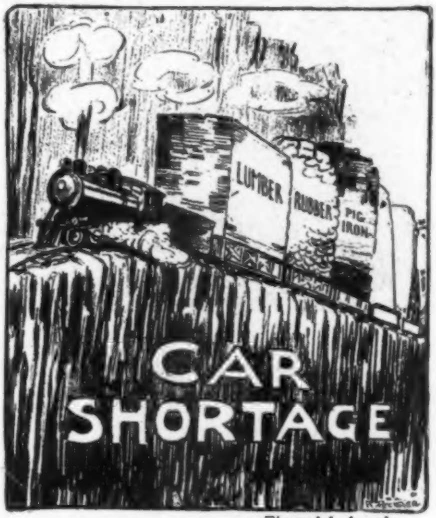
Benjamin Strong, Governor Federal Reserve Bank, Dist. of N. Y.—"Now that the Secretary of the Treasury has outlined his plans for the coming campaign we can proceed in this district with a considerable degree of certainty. The Secretary has set $3,000,000,000 as the minimum amount of bonds which should be sold throughout the country. In the last campaign we set for this district a figure of 50% of the amount of the entire issue and we secured subscriptions aggregating something over $1,300,000,000. If we again take 50%, or $1,500,000,000, this time as the smallest amount with which we shall feel contented and if the efforts of the various committees throughout the district result as successfully as they did before, it would produce subscriptions of about $2,000,000,000 for this district, while some similar activities in the rest of the country, based on the results last time, would produce total country-wide subscriptions of between $4,500,000,000 and $5,000,000,000."

Frank A. Vanderlip, president of the National City Bank of New York:

"I do not think we quite understand what the meaning of this great war is. When we are told that the appropriations for this fiscal year aggregate at least $19,000,000,000, we begin to realize what it means to conduct this great struggle financially. We are doing as important work in this next Liberty Loan as anyone wearing khaki."

Charles H. Sabin, president of the Guaranty Trust Company:

"The proceeds from the sale of Liberty Bonds will be expended in this country by our Government and by the Allied Governments, to whom we are making loans. As Secretary McAdoo has explained, the situation is largely a mere matter of shifting credits and that money will remain in this country and will not involve any loss of gold or any loss of values. It is obvious that the more money there is spent in this country the greater will be our prosperity. The greater, too, will be America's dominance of world finances and exchanges."



—*Financial America.*

A HARD PULL.

Alexander J. Hemphill, chairman of the board of the Guaranty Trust Company:

"We have no time to lose. War is a battle of men, money, materials and minutes, and let me tell you that time is a mighty big factor. The proposition before the nation this minute is to save and invest for the Government's sake. Time is precious. We can't wait. Your savings is the Government's ammunition today. Why should we send our soldiers to

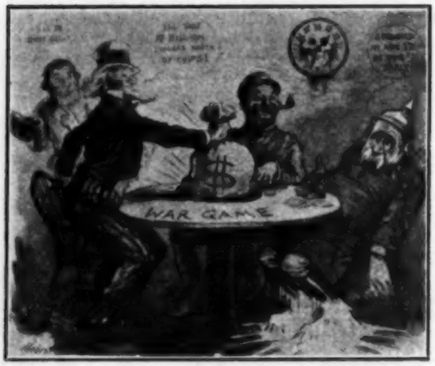
fight for us with cannon and rifle if we do not send them ammunition and cartridges?

"America needs your extra savings right now."

James P. Holland, president of the State Federation of Labor of New York:

"Business is good today. On top of the business prosperity there will be spent in this country by our Government and the governments of our Allies over one and one-half billion dollars a month, or approximately $75 per month for every family in the entire nation.

"Think this over. Then go to your employer and tell him you want to buy a Government war loan bond. Ask him to work out for you a way so that you can buy the bond



—*Saturday Evening Post.*

HE THOUGHT THEY WERE ALL PIKERS!

through his bank and pay for it in instalments of one dollar or more every week."

"Low Stock Prices Healthful"—G. E. Roberts

George E. Roberts, of the National City Bank, speaking recently at the editorial conference of the business press of New York City, held in the Automobile Club of America, painted a cheerful picture of business conditions that would follow the great war. Mr. Roberts also said something in regard to the manner in which the war is being financed.

He was emphatic in his belief that the prevailing low prices of stocks are a healthful sign. He fully indorsed the government's taxing heavily the very wealthy during the period of the war. Although such methods of taxation in times of peace are not just, the business in hand for the nation just now is the prosecution of the war, and war requires money. The place to get the money is from the wealthy.

Mr. Roberts asserted that since the outbreak of the great conflict the tendency in England has been toward government control of all manner of industries and transportation systems, and there is at present a great agitation in England for a united effort for government regulation throughout the Empire.

The railroad situation in America is very serious, but in Mr. Roberts' opinion the administration in Washington now shows a more favorable attitude toward the roads.

"Check New Enterprises"—Sec. Baker

New enterprises "not fundamental to the efficient operation of the country's necessary activities" in winning the war should not be undertaken now, in the opinion of the Council of National Defense.

The Council says such a policy will not result adversely upon business or conditions of employment "because every man and every resource will be needed during the war." The opinion was expressed in a letter to the Indiana State Council of Defense, signed by Secretary of War Baker. He wrote:

"Every effort that this country is capable of making should be applied to bring the war to a speedy and successful conclusion. The resources of the country in a general way may be said to consist of men, money and material. During the period of the war any new enterprises or undertaking should be tried and justified by the test: Will the men, money and material so applied best contribute in this way to the winning of the war?

"New enterprises which are not fundamental to the efficient operation of the country's necessary activities should not be undertaken. This will not result adversely upon business or conditions of employment, because every man and every resource will be needed during the war. All effort should be centered to help win the war."

W. S. Kies on Post-War Prosperity

"We have entered upon a necessary program of price fixing on the one hand and taxation of profits on the other, which is viewed with deep concern by the business interests in this country," says W. S. Kies, a vice-president of the National City Bank of New York.

"After the war, the prosperity of this country will depend upon the prosperity of our industries, and that in turn will depend upon the ability to withstand the competition which is sure to come. If the natural progress and development of our industries are handicapped on the one hand by the limitation of

profits through price fixing, and these profits are still further diminished by large taxes, there will be difficulty in fortifying industry against the competitive struggle to come. Add to this handicap the increasing cost of labor, bearing in mind that it is always easy to move wages upward and almost impossible to move them downward; consider the growing inefficiency of labor in this country, and one may well be concerned at our ability to produce at a cost which will enable us to compete successfully in the markets of the world."

"War Will End in 1918"—J. O. Armour

J. Ogden Armour is pre-eminently an optimist among optimists, writes Boersianer in the New York *American*. The optimist of the Armour organization asserted:

"I am convinced a pessimist cannot be successful in business. There is a propelling power in the world's scheme and that power I believe to be optimism. We all have a part of that force if we choose; and once we have it, we never should suspend or expel it, no matter what the circumstances or conditions.

"I know an optimist does not cut a particularly convincing figure at present. But the war will end some day; in fact, the intensity of the conflict should be an assurance it cannot last much longer. My personal view is that it will be over by next spring.

"One strong indication is that peace not only is in the air, but it is in the thoughts and speeches of statesmen; that is, certain political leaders abroad are thinking and talking peace; they, no doubt, are thinking it much more frankly than they are talking it. To some of them it must be disagreeable to think of a peace without all of the results they had hoped for, but the world proceeds by compromise."

"U. S. Can Raise Hundred Billion"—Gary

At reception to the Japanese commission Judge Elbert H. Gary said the United States will measure up all obligations in this international crisis.

"She is mobilizing all resources of the country for war purposes," he added. "She can, within three or four years, furnish 15,000,000 men, well trained and fully equipped for battle, and can, within the same time, provide $100,000,000,000 without crippling her financial strength or interrupting her industrial progress. If necessary, she will do both.

"We have no lives to spare, no money to waste. We would conserve life and property whenever possible within limits of duty and propriety. But we are happy that, at this particular time, we can be of substantial aid in defence of principles which lie at the foundation of civilization and moral progress. We are serious and sorrowful; yet we are determined and we are not despondent. And we are a united people, almost without exception supporting the President in the endeavor to administer the affairs of government creditably and impartially."

"Need Economic Strategy Board"—Kahn

In an address to the Harrisburg, Pa., Chamber of Commerce Otto H. Kahn of the banking firm of Kuhn, Loeb & Co., of New York, in discussing business under war-time conditions, said in part:

"I think it would serve a wise and useful purpose if the President or Secretary of the Treasury were to see fit to appoint a board of economic and financial strategy, composed, in part at least, of business men—just as the Army and Navy have boards of experts to elaborate and deal with strategic problems—a board which would carefully deliberate and advise as to the exigencies both of our immediate situation and of the conditions likely to confront us after the war.

"We shall have to meet, after the return of peace, both in our own country and abroad, the onset of the business men of Europe, spurred on by dire necessity to put forth their utmost efforts, trained to discipline, co-operation and inventiveness in the cruel school of years of desperate war upon their own soil or at their very door, backed by the full power of their respective countries."

—New York *Tribune*.
OUT OF THE WEST.

Expert Opinion on Outlook for Securities

Nat. City Bank of N. Y.—Everywhere there is anxiety as to the effect of debts upon industry and living conditions after the war, but it is noteworthy that in all countries the people are busy with plans for reorganization and development. It is generally recognized that the main problem is that of getting the people back to work. If the industries can be put on their feet promptly, the fiscal problems can be handled. The early forecasts of war finance went astray because they assumed that the war expenditures would be taken out of capital, but that has been true only in minor degree. The bulk of the war expenditures consist of labor and of supplies of current production.

—New York *World*.
STILL ENOUGH FOR HIM.

In all of the warring countries the period immediately following the war is looked forward to with more or less of apprehension. It is recognized that the months following demobilization, until the men who are leaving the armies are located in regular employment, and until the industries are reorganized and have found a regular outlet for their products, will be a critical time. The trade of the world is disorganized and will have to take shape again. May there not be a period of hesitation, confusion, unemployment and depression?

The best assurance that this danger will be averted is in the fact that it is everywhere recognized, and that steps are being planned to deal with it.

J. S. Bache & Co.—The depressed condition of stock market prices would seem to be the result of financial strain, combined with a feeling of extreme conservatism due to the uncertainty of effect of drastic taxes. This last keeps buyers out of the market and leaders unwilling to furnish support. With the field thus open to them, bear attacks are proving successful, not only in depressing prices materially, but in bringing about a considerable stream of liquidation. This is apparently being let to take its course without consideration of what unfavorable effect it must produce upon the larger considerations of Government borrowing.

The eventual effect of taxes upon business profits has, in our opinion, been over-estimated. Profits will be materially lower than before the United States entered the war, it is true, but they will nevertheless be, we believe, very much in excess of any figures ever realized before the world struggle began. Labor, it is true, is receiving immensely increased returns, but as has always been the case, the great sums in the aggregate will be freely spent at a good profit to sellers; farmers will be richer and larger spenders than ever before; the South, the only section which has for political reasons escaped drastic assessment by price-fixing, is already enormously benefited. The year 1918 should be most prosperous. Under the circumstances, the position of securities should be materially strengthened, which eventually must tend to better prices.

In the meantime financial interests cannot afford to allow depression to continue long.

Moore, Leonard & Lynch.—As to the immediate trend of the market, it looks as though a rather large short interest has been built up, and toward the latter part of the week the buying seemed to be of much better quality than the selling. This is likely to bring about a rally of several points. Once the short interest is driven to cover, however, there would appear to be little reason for the upward move going further, especially in view of the lack of public buying.

Advantage should be taken of rallies to liquidate speculative stocks.

Hayden, Stone & Co.—The worst is rapidly becoming known in the matter of price regulation and, as so often happens, it does not at all bear out some of the pessimistic reports which have been widely circulated. Certainly we believe that no legitimate producer or manufacturer can justly complain of a price of 23½ cents a pound for copper, or a price for steel averaging in the vicinity of $60 a ton. Both these price levels are, of course, considerably below the highest "war" quotations, but at the same time they are not far from the average prices prevailing for the last year or more. During 1916 most of the big copper producers received about 26 cents a pound for their output, and the Steel Corporation received about $58 per ton, or $2 less than the price fixed by the Government. In addition, the steel price does not affect bona fide contracts made either with individuals or the Government, so that probably a large part of the output, for the balance of the year at any rate, will be sold at a higher figure.

Money and Exchange

Control of Money—Effect of New Loan—Corporation Financing

The new and conspicuous evidence of organized control of the money market, with the advice and assistance of the Federal banks, which was afforded by the formation of the $200,000,000 "money pool" by New York bankers, has had its intended effect on money rates. The principal influence has been, very naturally, on call and time loans. Commercial paper shows no decline in rates, the highest grade now ruling 5¼ to 5½ per cent at New York City.

The chief value of the so-called money pool is in its effect on sentiment by relieving the fears of borrowers. No net increase of loanable funds can be created by the mere fact of combination.

Rediscounting Privilege

It is rather surprising that the rediscounting privilege has been so little used by the banks. Apparently bankers wish to keep this resource in reserve until they are forced to use it, because other methods of keeping down rates have been employed to the utmost. Total rediscounts for the New York district, which includes New York State and parts of New Jersey and Connecticut, are only about three-quarters of 1 per cent of the loans of New York Clearing House institutions alone, and open market purchases of the reserve bank are about 1½ per cent. Not all of the banks' loans are based on bonds or paper which would be accepted for rediscount. Nevertheless it is clear that the possibilities of rediscounting as an aid to the money market have as yet hardly been touched. A higher money rate would, of course, be the strongest influence in bringing them into play.

The Big Loan

At first thought it would seem that the floating of a $3,000,000,000 loan must throw a heavy strain on the money market. But it is to be borne in mind that from Nov. 15 to Dec. 15 no less than $1,250,000,000 U. S. short-term certificates fall due, while payments on the new loan are scheduled 18 per cent Nov. 15, 40 per cent Dec. 15 and 40 per cent Jan. 15. Since the certificates may be used in paying for the new bonds, this relieves the situation considerably. Moreover, the banks may make payments on the loan by merely transferring credits to the Government on their own books.

It is not expected, therefore, that the loan will have any important effect on the money market. On the market for long-term investment capital, however, it must, of course, have an effect; but it is a question whether most of that effect has not already been "discounted," in accordance with the long established custom of financial markets.

Gold Supplies

The fact that our net supplies of gold have increased about $1,366,000,000 since the beginning of the war 1914, gives us a gold base now for the inflation of our bank credit, especially when taken in connection with the great reduction in reserve requirements which has been made possible by the closer cooperation of our banks through the Federal Reserve system. We must expect a firm and gradually advancing money market during the war, or at least until there are more definite prospects of peace, but there is no reason to anticipate any pinch in money.

The total of our loans to our allies since we entered the war now amounts to over $2,500,000,000, but most of this has been or will be spent in this country, hence its effect on our markets is not much different from that of the proceeds of our big loans which are directly used by our own Government.

The last offering of $400,000,000 U. S. Treasury certificates was oversubscribed, mostly by the banks, and the small weekly offering of 5½ per cent. British Treasury notes through J. P. Morgan & Co. finds a ready market.

Few Long-Term Bonds

Corporations are offering very few long term bonds, since they do not wish to compete with the Government bonds, but they are forced into the market with short term notes to such an extent that our total corporation financing is still about two-thirds of what might be called normal. Most of this is indirectly connected with the war.

The feature of the foreign exchange market has been the strength of exchange on neutrals, especially the Scandinavian countries. It is self-evident that this is due to our embargo on exports of both merchandise and gold. The result is that there are almost no offerings of commercial bills on these countries and the exchange rate on them has to rise.

RAILWAYS AND INDUSTRIALS

Investment Opportunities in the Rails

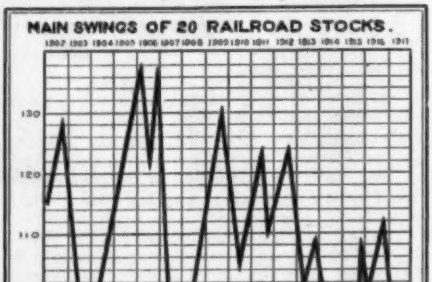
Prices at Panic Levels—A New Graphic Showing Trend of Earnings—List of Bargains—Effect of Government Regulation

By G. C. SELDEN

THERE is no mystery as to the principal cause of the present low prices for the best railroad stocks. It is simply that the demands of the Government for war loans are absorbing available investment capital to such an extent that little is left to go into corporation securities.

But the time always comes in any falling market when prices have discounted the adverse features of the situation. That time is the opportunity for the bargain hunter.

The lowest prices are naturally made



at the moment when the cloud of gloom seems darkest. When the last ray of hope disappears and investors can see nothing ahead but a long period of low prices—then, with that inherent and exasperating contrariness which we all have observed in the stock market again and again, prices slowly begin to rise.

The High Cost of Capital

We have, of course, heard a great deal about other bearish arguments on railroad stocks. The combination of regulated rates and unregulated costs is certainly a bad one, and when the roads are working for higher rates we naturally hear a good deal about it.

But there are some offsets to this argument that we have perhaps paid less attention to. For example, the roads have, as a matter of fact, been granted several rate increases. Those increases were not as great as railway managers would have liked, and if we measure by ton-miles of freight hauled the increase in rates was not enough to offset the rise in expenses. Nevertheless the rise in rates has been of material help to the roads.

Also, coming at the argument from the other end, the Government has now fixed prices on some of the principal things that enter into railroad costs, notably iron and steel—so that costs are no longer absolutely unregulated.

Moreover, the roads are hauling a gross business far beyond anything ever before known in railroad history. That is a very important help, it goes without saying. And Government supervision over the routing of freight and the loading of cars has resulted in a degree of efficiency in handling that big gross business which every one had previously supposed impossible.

The fact that the high cost of capital is the principal reason for the low prices of railroad stocks is easily proved by noting the effect it has had on the prices of other securities where interest payments and principal are so strongly protected that no reasonable doubt exists as to the safety of the investment. Strongly

protected short-term notes have recently been sold at prices to yield 7 per cent. or even more. The average yield on 15 short-term notes issued by the leading railroads of the country is now 6.3 per cent. at current quotations.

The best short-term issues, as everybody knows, generally bring a low interest return on the investment. Hence the prices at which they are now selling absolutely demonstrate the importance of the high cost of capital as affecting railroad stock prices.

At Panic Levels

The fact is that railroad stocks are now selling at panic levels. At this writing the average price of 20 leading rails stands at 85.2. This compares with a low point of 87.4 in the panic of 1914, 81.4 in the panic of 1907, and 90.7 in 1903. Present prices are below the bottom of 1914 and nearly down to the extreme low of 1907.

The very low level of prices for railroad stocks is also emphasized by the large income return obtainable on issues which are protected by earnings of from *two to four times* present dividend rates.

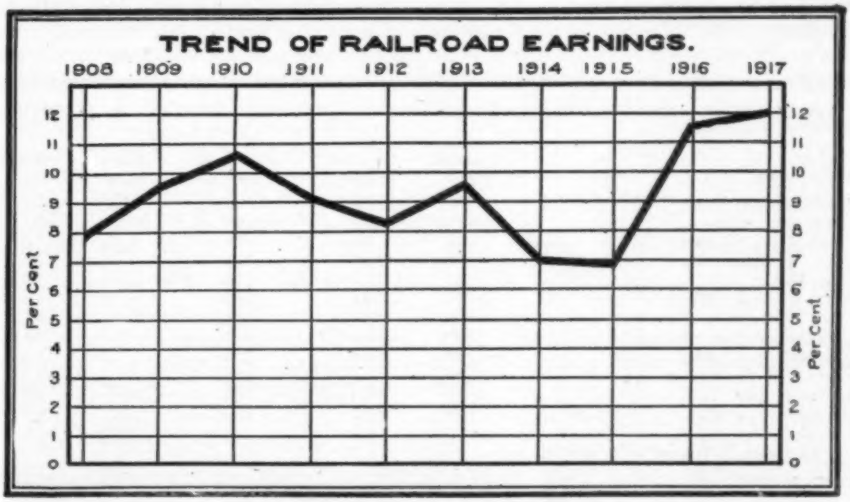
In the case of Southern Railway preferred, on which 5 per cent. dividends have recently been begun, current earnings are running at more than four times that rate and the income yield on money invested in the stock is 8.1 per cent. at the present price. On both Union Pacific and St. Paul the income yield at today's price is 7.8 per cent. and Union Pacific's earnings are running nearly double the dividend requirement. Chesapeake's income return is at 7.6 per cent., although its 4 per cent. dividend is being earned three times over.

Trend of Railroad Earnings

One would almost suppose, from some newspaper comments, that railroad net earnings had practically dried up and disappeared. It is true that they have fallen off sharply on some of the Eastern roads, especially New York Central, Pennsylvania, Erie and New Haven, but taking the country as a whole they have been well maintained. Increased expenses and taxes have been offset by bigger gross business, heavier car loading and better routing of shipments.

In considering the broad trend of the railroad earnings of the country, it is deceptive to deal with the total gross or the total net for all roads, or even for any selected group of roads, because that method leaves entirely out of consideration the constant growth of capitalization.

The real index to railroad earnings, so far as investment values are concerned, is found in the ***average per cent.***



earned on railroad stocks, after proper allowance has been made for changes in interest charges or issues of preferred stocks.

The graphic herewith has been prepared on that plan. It shows year by year the average per cent. earned on an average of 20 leading railroad common stocks. The 1917 earnings are carefully estimated from monthly returns down to the latest date available. The stocks used are as follows: Atchison, Atlantic Coast, Baltimore & Ohio, Chesapeake & Ohio, St. Paul, Northwestern, Delaware & Hudson, Erie, Gt. Northern, Illinois Central, Lehigh, Louisville & Nashville, New Haven, Norfolk & Western, Northern Pacific, Pennsylvania, Reading, Southern Pacific, Southern Railway, Union Pacific.

table showing dividends, earnings, and income yield for a dozen good railroad stocks. The income yield varies from 6 per cent. to 8.1 per cent., at today's prices. Estimated current earnings vary from 4.4 per cent. for St. Paul to 21.1 per cent. for Southern Railway preferred. And the per cent. earned on the price varies from 8.6 to 34.

The reason, of course, why Southern preferred heads this list in point of yield on the investment is that it is not a "seasoned" dividend payer. Investors have not as yet complete confidence in the 5 per cent. dividend and for that reason the price of the stock is low compared with the dividend return. Dividends were discontinued following the 1907 panic and after the 1914 panic. But the present position of the road warrants

INCOME YIELD AND CURRENT EARNINGS ON A SELECTED LIST OF R. R. STOCKS

	Current Price	Est. Current Earns.	% Earns. to Price	Div. Rate	Income Yield
Southern Ry. pref.	62	21.1%	34.0%	5%	8.1%
Union Pac. com.	128	18.9	14.8	10*	7.8
C. M. & St. P. com.	51	4.4	8.6	4	7.8
Ches. & Ohio com.	53	11.7	22.1	4	7.6
Nor. Pac.	99	15.4	15.6	7	7.1
N. Y. Central	74	10.6	14.3	5	6.8
Can. Pac. com.	148	18.7	12.6	10	6.8
Gt. Nor. pref.	103	10.6	10.3	7	6.8
Southern Pac. com.	91	20.1	22.1	6	6.6
Norfolk & West. com.	109	17.6	16.1	7	6.4
Atchison com.	95	15.7	16.5	6	6.3
Ill. Cent.	100	15.3	15.3	6	6.0

*Includes ½% quarterly special divs.

There is of course considerable variation in the trend of the earnings of different roads. For the exact figures our Railroad Bargain Indicator should be consulted.

The graphic brings out plainly the fact that the stockholders of our principal roads, taken as a whole, have little reason to complain of results in 1916 and 1917—yet railroad issues, so far from responding to this situation, still compete with each other in their downward drift.

A List of Good Rails

Without attempting to enter into a complete discussion of the merits of individual issues, I include herewith a

the expectation that the 5 per cent. rate can be continued.

Union Pacific gives the high yield of 7.8 per cent., perhaps because the quarterly dividend is declared in the form of 2 per cent. regular and ½ per cent. extra. St. Paul's extra high yield is due to the fact that the earnings of this splendid property have been on the down-grade for some years. The Puget Sound extension has so far been a burden on this road, but in time it must certainly become profitable. In the meantime, it is well to remember that the time to buy a stock at a bargain is when it is low. Chesapeake & Ohio is another "non-seasoned" dividend payer with big earn-

ings, with excellent prospects for maintaining the present rate.

When we come to Great Northern and Northern Pacific, there is no apparent reason why they should sell so low except the high cost of capital. Their earnings have been good for years and their dividend record is consistent. In addition, they have a big equity in the Burlington earnings (discussed in full in the article beginning on page 728 of our September 1 issue).

In 1916, New York Central earned 18.3 per cent. on its stock. There has been a big drop this year, but it is still earning more than double its dividend requirement. Canadian Pacific's estimated earnings of 18.7 per cent. are figured before deduction of taxes, but even so they show a liberal margin above dividends.

Southern Pacific has a consistent record of good earnings and regular dividends and is now earning 3⅓ times its dividend requirements, and in a general way the position of the remaining three roads is similar.

Government Responsibility

A factor of importance in this connection is that the United States Government, since it is prescribing the rates the roads may charge, the wages they must pay their employees, the prices they shall pay for iron, steel, copper, etc., the routing of shipments and the loading of cars, is assuming a responsibility to the owners of railroad stocks which can scarcely be evaded.

The Government cannot justly take a man's business out of his hands by means of innumerable regulations unless it also sees to it that he gets a fair return on the money he has invested in the business. Government regulation, even before the war, checked the natural flow of capital into railroad securities. The way the matter presented itself to investors was that the Government would not let the roads make any money. This is undoubtedly a good argument against any big speculative advance in railroad stocks, but on the other hand Government control means stability—therefore it is an equally good argument against any panicky decline.

This, then, is the situation as affecting many good railroad stocks:

(1) Income yields of 6 to 8 per cent.

(2) Dividend rates in most cases conservative.

(3) Current earnings two, three, or four times dividends.

(4) Transportation efficiency far beyond anything previously attained.

(5) Increased Government responsibility for the results obtained by the roads.

(6) And, last but not least, prices of railroad stocks at panic levels.

A WALL STREET MONUMENT

"Do you know," said a Wall Street man, as he pointed to the Johnston building, at corner of Broad street and Exchange place, "I think that is one of the greatest monuments in the Wall Street district. It shows what a man can do to turn defeat into victory.

"Thirty years ago John Taylor Johnston was a heavy holder of Central of New Jersey stock. When it faced receivership the stock broke to 31, and he was a ruined man. Like Pandora's box, hope alone remained. During the reorganization period he became interested in studying the road. He became convinced of its future possibilities. The conviction that the road had a future became an obsession.

"He still owned a magnificent art gallery, which he sold, and invested the proceeds in Central stock. He prevailed upon friends to lend him money with which to purchase more. He bought all he could and margined for more.

"The rest is market history. Central justified his judgment and made him richer than before. With a part of his newly-made fortune he erected that great building. There it stands, an enduring monument to that business courage that never knows defeat."—*The Wall Street Journal.*

Copper Stocks Re-Valued

Will Dividends Be Earned?—Fixed Price and War Taxes Cut Profits—Looking Into 1918

By FRANK E. SEIDMAN, M. C. S., C. P. A.

SINCE the 23½c fixed price for copper was announced by the Government, copper stocks have been acting very uncertainly. It is generally assumed that the 23½c figure is such as to allow a large margin of profit. This is based on the fact that before the war, copper commanded an average of about 14c a pound and on that price, copper companies were able to get a fair return. It is therefore reasoned that if at a 14c price profits were made, on a 23½c price, even taking higher costs into consideration, large profits should be made by the producing companies.

The heads of the various copper companies have expressed satisfaction at the price fixed by the Government. Unquestionably, from the trade standpoint, the price is fair, and the profits will be large. It is therefore, natural for these heads to feel optimistic as to the outlook for their companies. Yet when these leaders of the copper industry refer to the optimistic outlook, they do not take stock values into consideration at all. A company, for instance, may be able to earn three times as much as it earned in 1915 and yet the price of that stock may be so valued at present that it would be necessary for that company to earn five or six times the profits of 1915 in order to sustain the present price of the stock. In other words, there must be a relation between earnings and present stock prices.

Margin of Profit per Pound of Copper

To ascertain this, I have attempted to make a calculation of how the large copper companies whose stocks are listed on the Stock Exchange will fare under the fixed price.

Table 1 shows the margin of profit per pound of copper which was made in 1916 by the various companies, as compared to the margin of profit that will probably be made on the new selling price.

In estimating the present cost of production, I have taken the various factors of increase in the cost, labor, material, etc., which have taken place since 1916 and which will probably continue. It will be remembered that the copper producers have agreed to maintain present wages, which are based on very much higher copper prices than 23½c a pound. The above estimated present cost allows for these higher wages, as well as for other increases.

An examination of this tabulation shows what a drastic cut in the margin of profit will result from the price-fixing. As compared to an actual average cost of 8.7c for these companies in 1916, it will cost anproximately 14c to produce a pound of copper at present. On the other hand, the selling price of copper is reduced from 25.7c in 1916 to 23.5c (the Government's fixed price). Thus, whereas an average margin of 17c a pound of copper was made by these companies in 1916, the estimated margin of profit on the basis of the new price and the higher cost, will result in a profit of only 9½c. In other words, net profit per pound is cut more than 40 per cent.

Estimated Earnings on Basis of Fixed Price

It is very difficult under present conditions to estimate the production of copper that the various companies will make in the next year. Conditions are so uncertain as to the future,

that an estimate of that kind is hazardous. However, taking the various factors into consideration, and remembering that whatever figures are placed are merely rough approximations, I have made an estimate of the production of the various copper companies. With this as a base, and with the estimated net profit per pound of copper determined in the Table 1, I have made a calculation in Table 2 showing the earnings that the various companies will make on the fixed 23½c price.

On this basis it will be noted what a drastic cut will result in the earnings per share of these companies. It must be remembered that these figures are before taxation. As compared to $24.85 a share earned in 1916, Anaconda is estimated to earn $13. Utah will earn $15.50 a share, as compared to $24.50 in 1916. Indications are that in most cases earnings will be practically cut in half.

It must be remembered that these estimated earnings are not for the year 1917. During practically the entire year of 1917 these companies will have received market prices for copper, which were considerably above the 23½c figure and therefore, profits in 1917 will not be affected by this price-fixing. These earnings are, therefore, the projected figures for the coming year. However, the 1917 earnings will be subject to the excess profits tax, which is an element that must be carefully examined in connection with copper companies.

TABLE 1—PRESENT COPPER PROFITS

(In cents per pound.)

	Results in 1916			On Fixed Price Basis		
	Actual Cost	Selling Price	Margin of Profit	Est. Cost	Selling Price	Margin of Profit
Anaconda	*8.7c	*25.2c	16.5c	14c	23½c	9½c
Chino	8.7	26.5	17.8	14	23½	9½
Greene-Cananea	11.4	25.5	14.1	17½	23½	6
Inspiration	8.7	25.4	16.7	14	23½	9½
Kennecott	5.8	25.5	19.7	9½	23½	14
Miami	9.5	24.5	15.0	15	23½	8½
Nevada Cons.	8.2	25.8	17.6	13	23½	10½
Ray Cons.	10.3	26.7	16.4	16	23½	7½
Utah	7.1	26.1	19.0	12	23½	11½
Average	8.7c	25.7c	17.0c	14c	23½c	9½c

*Estimated.

Excess Profits Tax

The Revenue Bill has just been signed by the President and includes a provision for excess profits taxation which is basically different from the original draft of the excess profits tax. It will be remembered that the Senate Bill provided for a tax on the difference between normal earnings (1911-1913) and 1917 earnings. The new bill eliminates this basis entirely, but substitutes a tax based on the percentage of earnings upon capital investment. The bill provides that where a company in the pre-war period earned more than 9 per cent. on its capital investment, it would be allowed a deduction of only 9 per cent., irrespective of the amount earned. On the other hand, if less than 7 per cent. was earned on capital investment, a minimum deduction of 7 per cent. will be allowed. Beyond this deduction the companies will be required to pay the following tax on capital investment:

Earnings up to 15% on capital investment..20%
From 15% to 20% on capital investment..25%
From 20% to 25% on capital investment..35%
From 25% to 33% on capital investment..45%
In excess of 33% on capital investment....60%

Practically all the copper companies in the above list have earned more than 9 per cent. on their capital investment. So that all of them will get an exemption of 9 per cent. on their investment as a deduction from the tax.

Calculating the tax on a return upon capital investment is going to hit the copper companies very heavily. Those who are familiar with the capitalization and financing methods of the various copper companies, know that most copper companies started out as prospects. As such, their original securities were sold to the public at a very low figure. This is because the element of risk is so great in undeveloped copper securities that it cannot be expected that full value be received on new issues. When a copper company develops, however, and copper is discovered, the relation between the value of the mine and the original selling price of the stock is considerably widened. For instance, when the Chino Copper Co. was first floated, the stock was sold to the public at a maximum of $5 a share. This was when the company was in its early stages and was practically a prospect. As soon, however, as the company established itself and developed its ore reserves, the actual value of the mine immediately trebled and thereafter increased to about ten times the original investment. Yet, according to the tax bill, what would be allowed as an exemption would be actual capital investment and this would be a comparatively small amount. In addition, the tax bill provides that any earnings reinvested in the property will be allowed as capital investment. Thus, what it practically amounts to is that the copper companies will be allowed to take their book figures of original investment plus surplus earnings reinvested, which in effect amounts to book value of the stock. As already noted, this book value must in most cases be considerably lower than the market price of the stock, because of the method of financing copper companies and the bookkeeping resulting therefrom.

It is because of these conditions that copper companies will be unfavorably affected by the switch from the basis of levying the excess profits tax from pre-war earnings to earnings on capital investment. On the basis of investment provided for in the bill, most companies at present, even after the cut to 23½c in the copper price, will earn a large rate per cent. and as a result will be affected by the high rates of taxes.

I have examined the various reports of the large companies and have calculated the maximum valuation that will probably be allowed under the tax bill for the various companies. On this figure, I have allowed a 9 per cent. exemption before pre-war profits and on the balance between the exemption and the estimated earnings at 23½c before taxes, I have applied the above rates of taxes. The result of this computation is shown in Table 3.

This brings out some very pertinent facts. It shows that after the tax on

TABLE 2—ESTIMATED EARNINGS ON BASIS OF FIXED PRICE

	Shares Outstanding Number	Par	Approx. Production†	Est. Profit per Lb. on Fixed Price	Net Before Taxes*	Est. Earn'gs per Share on Fixed Prices	Earned per Share in 1916
Anaconda	2,331,250	$50	300,000,000	9.5c	$30,300,000	$13.00	$24.85
Chino	869,980	5	70,000,000	9.5	6,700,000	7.7	14.40
Greene-Cananea	961,869	10	60,000,000	6.0	3,400,000	3.5	7.03
Inspiration	1,181,967	20	110,000,000	9.5	12,400,000	10.5	17.45
Kennecott	2,786,679	..	140,000,000	14.0	28,100,000	10.1	14.05
Miami	746,740	5	50,000,000	8.5	4,100,000	5.5	10.39
Nevada Cons.	1,999,457	5	80,000,000	10.5	9,400,000	4.7	7.51
Ray Cons.	1,577,179	10	70,000,000	7.5	5,800,000	3.7	7.65
Utah	1,624,490	10	180,000,000	11.5	25,180,000	15.5	24.46

†Pounds.
*Allowing for other income.

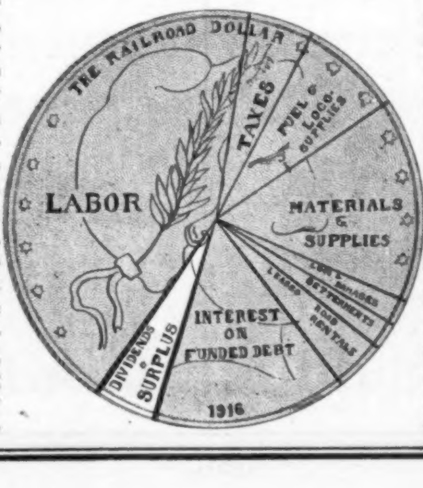
this basis has been deducted, copper companies will not be anywhere near as prosperous as they are assumed to be. A condition of lower profits because of higher costs and lower selling price, plus this unusually high tax, will result in a condition wherein the present dividend rates cannot be maintained. This may be noted by the comparison between the estimated earnings after the taxes and the current rate of dividend payments of these companies. In all cases except Kennecott and Anaconda, the earnings will be very much below dividend requirements. This is a situation which must be carefully taken into consideration before valuing copper securities at present. If earnings are eventually to be reduced to the level here indicated, dividends will have to be cut in proportion. If dividends are cut, the present prices of some of these securities are not warranted.

I must again call the reader's attention to the fact that these figures are not indicated earnings for 1917, but for 1918. In 1917, the situation is somewhat better than here indicated, because of the fact that the fixed price did not prevail throughout the year. However, even on that basis, after taking the excess profits tax that the companies will pay, there will be a very narrow margin left between present dividend rates and earnings for year.

TABLE 3—EXCESS PROFITS TAXES AND NET EARNINGS AFTER TAXES

	Approximate Book Value (000 Om't'd)	9% Exemption	Estimated Earnings Before Tax	Balance of Earnings to Be Taxed	Taxes to Be Paid	Net After Tax	Net per Share After Taxes	Cur. Div. Rate
Anaconda	$165,000	$14,850,000	$30,300,000	$15,450,000	$3,380,000	$26,900,000	$11.5	$8.00
Chino	28,000	2,520,000	6,700,000	4,180,000	1,100,000	5,600,000	6.4	10.00
Greene-Cananea	25,000	2,250,000	3,400,000	1,150,000	230,000	3,150,000	3.3	8.00
Inspiration ...	36,000	3,240,000	12,400,000	9,160,000	3,600,000	8,800,000	7.5	8.00
Kennecott	120,000	10,800,000	28,100,000	17,300,000	4,300,000	23,800,000	8.7	6.00
Miami	12,000	1,080,000	4,100,000	3,020,000	1,200,000	2,900,000	4.2	8.00
Nevada Cons..	29,000	2,610,000	9,400,000	6,790,000	2,100,000	2,300,000	3.6	4.00
Ray Cons......	28,000	2,520,000	5,800,000	3,280,000	800,000	5,000,000	3.3	4.00
Utah	68,000	6,120,000	25,180,000	19,060,000	6,900,000	18,200,000	11.4	14.00

THE RAILROAD DOLLAR



Sums subtracted from earnings by rate restrictions impose, in the aggregate, severe burdens on the carriers, but scarcely affect the price of a commodity to the ultimate consumer, because of their unappreciable proportion to its cost. Thus, through reductions which they cannot prevent, the income of the railroads is substantially reduced, while the purchasing power of what they actually earn has depreciated. Owing to the 115 per cent increase in commodity prices from 1895 to 1917, the purchasing power of the dollar has declined from 100 to 45, or 55 per cent. Consequently, under our existing system of regulation, the railroads are compelled to accept payment for their services today at the rate of 45 cents on the dollar, considering the altered purchasing power of the dollar since 1895.

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before the earnings' columns indicates a deficit for the year in dollars per share.

	Dollars Earned Per Share. 1912	1913	1914	1915	1916	1917	Present Div. Rate	Price	Yield on Price	INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.
Am. Beet Sugar com..........	8.46	3.88	1.01	7.50	14.30	30.55	8	84	9.52	Recent Government price insures reasonable profit.
Am. Car & Foundry com......	.....	2.46	4.09	5.52	0.76	27.37	4	69	5.79	Large Gov't contracts for box and tank cars. Extra div.
Am. Hide & Leather pfd.....	3.22	3.66	0.83	7.38	12.64	13.60	5	56	8.92	Latest earnings favorable.
Burns Bros. com.............	.....	4.41	8.40	12.11	10.03	21.27	6	101	5.94	Business continues very profitable.
Col. Fuel & Iron com.........	3.93	3.21	3.11	1.44	5.97	23.80	3	43	6.97	
Int. Nickel com..............	5.89	4.35	2.80	3.33	6.83	7.78	6	32	18.75	Canadian and U. S. taxation hurtful.
Nat. Biscuit com.............	10.00	9.61	11.75	9.52	8.19	9.72	7	102	6.86	Peace should prove advantageous.
Westinghouse Elec. com......	3.08	4.10	5.35	2.36	10.21	12.56	3½	46	7.60	May need to do new financing.
Allis Chalmers pfd...........	.....	4.77	—0.15	6.80	19.97	.....	7	77½	9.03	Plants running at capacity. Expects to clean up back dividend.
Amer. Agricultural Chem. com.	7.34	5.23	7.68	10.97	20.57	.....	6	85⅝	7.01	Outlook encouraging, a semi-peace stock.
Am. Can pfd.................	15.86	9.66	10.61	12.19	19.31	.....	7	101	6.93	Government business helps. Back dividends due.
Am. Cotton Oil com..........	6.49	3.38	1.99	7.05	6.99	.....	4	32½	12.30	High prices for cotton seed detrimental.
Am. Linseed pfd.............	—2.85	2.96	1.83	6.02	8.82	.....	3	61⅝	4.87	Earnings believed to be very large.
Amer. Loco. com.............	0.47	17.74	1.30	13.00	36.08	.....	5	60½	8.26	Profits affected by high operating costs.
Am. Malt pfd................	5.61	2.79	2.29	0.08	4.54	.....	4	69¾	5.73	Sudden prosperity may mean larger dividend.
Am. Smelt. & Ref. com.......	11.47	7.47	6.51	16.80	29.75	.....	6	95½	6.28	Fortified with large cash reserves.
Amer. Steel Foundries........	4.52	4.53	—1.35	—1.20	19.89	.....	7	64½	10.85	Recent dividend increase warranted by earnings
Amer. Sugar Ref. com.......	5.23	—0.25	2.90	4.99	18.46	.....	7	109½	6.39	Government price restrictions.
Am. Tobacco com............	30.39	28.11	21.00	20.10	22.70	.....	20	190⅝	10.49	Margin over dividend now larger than 1916.
Am. Woolen com.............	2.01	—9.89	—0.06	6.40	15.32	.....	5	45½	10.98	War orders large.
Amer. Zinc com..............	8.10	—4.65	1.53	54.92	34.88	.....	0	17½	0.00	Earnings affected by decline in spelter.
Anaconda Copper	3.65	2.61	1.88	7.16	24.35	.....	8	69⅞	11.44	Expected to continue dividend despite taxes.
B. F. Goodrich com...........	0.34	0.83	5.62	17.17	12.76	.....	4	43⅛	9.27	Encountering competition. Operating costs heavy.
Baldwin Loco. com...........	11.49	13.09	—5.25	7.14	22.91	.....	0	62½	0.00	Should benefit by post-bellum demand for locomotives.
Barrett & Co. com............	11.11	15.61	10.31	21.19	32.10	.....	7	98¾	7.09	Strongly intrenched against foreign competition
Bethlehem Steel com..........	6.86	27.45	32.59	112.49	82.25	.....	10	87¼	11.46	Excess profits tax will be heavy.
Butte & Superior..............	.....	3.47	5.21	33.37	31.79	.....	0	23½	0.00	Further dividends enjoined pending decision in appeal of minerals separation suit.
Cal. Petroleum pfd...........	.....	11.69	11.49	7.80	8.44	.....	4	43	9.30	Position not encouraging.

Central Leather	8,58	5.18	6.41	10.82	33.14	.....	5	84½	5.91	Gov't business. Will pay heavy excess tax. Extra div.
Chino Copper	2.80	3.51	3.44	7.67	14.76	.....	5	48¾	10.25	Extra dividends not expected to continue.
Continental Can	.....	12.10	4.09	12.10	22.38	.....	5	98½	5.07	Government business.
Corn Prod. pfd	6.89	7.69	7.70	10.59	20.39	.....	7	99	7.07	Earnings estimated at rate of $25.
Crucible Steel com	6.81	12.84	—2.94	5.39	45.89	.....	0	72⅛	0.00	Rumored dividends will be inaugurated soon.
Cuba Cane Sugar com	.....	.....	.....	.....	17.36	.....	0	31¼	0.00	Earnings disappointing.
Distillers' Securities	1.62	1.17	2.28	4.64	10.30	.....	2	38½	5.19	Believed will benefit largely by high prices for spirits.
General Chem. com	21.72	19.19	18.73	44.27	86.76	.....	8	195½	4.09	War earnings.
General Electric	16.19	12.88	11.12	11.57	18.31	.....	8	138⅛	5.79	Burdensome inventories.
Greene Cananea Cop	4.31	2.33	1.97	1.04	14.10	.....	8	41½	1.92	Fear effect of excess profits tax.
Great Northern Ore	1.75	0.71	0.54	0.70	1.39	.....	0	33⅛	0.00	No regular dividend rate—last payment $1.
Gulf States Steel com	.....	.....	.....	10.17	30.25	.....	8	96	8.33	Will suffer from tax and price fixing.
Int. Agr. Chem. pfd	11.22	—1.24	0.65	—0.47	9.80	.....	0	43	0.00	Earnings excellent.
Inter. Har. N. J. com	16.18	15.54	14.41	16.19	21.45	.....	5	109	4.58	A peace stock.
Inter. Mer. Mar. pfd	7.32	4.44	—0.58	26.26	51.23	.....	0	86	0.00	Back dividends 88%.
Inter. Paper pfd	5.35	4.44	5.08	5.44	20.62	.....	6	99	5.05	Earnings disappointing.
Maxwell Motor com	.....	.....	0.30	6.55	30.18	.....	0	33½	0.00	Competition and war economies hurt.
Mex. Petroleum com	5.90	11.58	4.68	5.12	15.83	.....	6	93	6.45	Further development awaits quiet in Mexico.
Miami Copper	2.80	3.51	3.44	7.67	14.76	.....	6	34	17.05	Dividends jeopardized by excess profits tax.
National Enam. & Stamp. com.	—1.54	1.05	—0.32	2.02	11.60	.....	4	44¾	8.93	Increased dividends expected.
National Lead com	3.81	3.64	3.73	4.86	6.16	.....	4	50¼	7.96	Lower lead prices should benefit.
Nevada Consolidated Cop	2.18	1.45	0.74	2.78	7.50	.....	2	20	10.00	Dividends endangered by profits tax.
New York Air Brake	5.72	6.55	6.41	13.43	82.15	.....	10	123	8.13	Earnings large. Extra dividends.
Pittsburgh Coal pfd	7.48	10.07	5.06	6.11	11.64	.....	5	87½	5.71	Coal price regulation.
Pressed Steel Car com	0.76	10.56	0.14	3.60	15.00	.....	7	60	11.66	High costs cut down profits.
Pullman Co. com	8.69	9.29	9.04	8.79	10.32	.....	8	135	5.92	Increased expenses reduce margin over dividend.
Railway Steel Spring com	5.77	1.31	—0.42	3.09	20.49	.....	5	45	11.11	Repair business heavy. Earnings large.
Ray Copper	1.33	1.85	1.65	3.08	7.65	.....	2	24⅞	8.04	Profits tax may endanger dividend.
Sears Roebuck com	19.34	21.17	21.30	17.57	26.55	.....	8	156	5.12	Record gross business continues.
Sloss-Sheffield com	0.84	2.09	0.21	0.53	14.44	.....	0	43½	0.00	New management forcing retrenchment.
Studebaker com	4.89	3.14	12.71	27.49	26.14	.....	4	44	9.09	Large floating debt. Competition hurtful.
Tobacco Products com	.....	0.30	1.03	2.31	5.44	.....	0	71	0.00	Dividends may be delayed.
United Cigar Stores com	5.75	6.83	7.09	7.69	9.48	.....	8	115¾	6.91	Record breaking business.
United Fruit	16.39	14.53	6.19	16.12	27.97	.....	8	126¾	6.31	Government regulating freight rates.
U. S. Cast Iron Pipe pfd	5.69	4.50	—0.46	2.55	10.91	.....	5	53	9.43	High prices curtail demand for pipe
U. S. Ind. Alcohol com	5.00	1.89	1.90	12.60	36.00	.....	16	135	11.85	Earnings continue large.
U. S. Rubber com	6.00	12.19	9.18	10.80	17.75	.....	0	57½	0.00	High costs and competition.
U. S. Smelt. & Ref. com	14.42	10.08	3.21	27.85	40.99	.....	5	59¾	8.36	Benefits from high silver prices.
U. S. Steel com	5.71	11.02	.....	9.96	48.48	.....	5	108⅜	4.60	Paying "extras." Large earnings.
Utah Copper	5.35	5.38	5.34	11.03	24.00	.....	7	90	7.77	Tax will leave slim margin over dividends.
Va.-Carolina Chem. com	3.28	0.53	3.39	7.55	10.39	.....	3	36¼	8.27	A semi-peace stock.
Willys Overland com	.....	4.61	4.33	11.34	6.63	.....	3	25	12.00	Manufacturing aeroplane motors.
Woolworth, F. W., com	8.73	10.82	10.86	13.19	15.57	.....	8	120	6.66	Gross business record breaking.

Railroad and Industrial Digest

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor.*

RAILROADS

Baltimore & Ohio.—The earnings statement for August showed the largest monthly gross earnings in its history, but the increased cost of operating not only absorbed gain but left a decrease for both periods, compared with the corresponding periods of 1916. A net increase in gross of $1,309,899, with a final decrease for August of $594,373, tells the tale. The total increase in operating expenses was $1,904,272, of which $1,471,628 was absorbed in conducting transportation. This ratio of operation to gross earnings was more than 76%, an unusual amount even in abnormal times.

Boston & Maine.—This company's net income of $1,880,448 for the year ended June 30, 1917, is equal to 4.28% on the common stock, after 6% on the outstanding preferred, compared with 9.81% in the year ended June 30, 1916.

Chesapeake & Ohio.—August earnings $4,735,959, compare with $4,307,432 for the 1916 comparative period. In contrast to this, the net figures show a decrease, being $1,388,276 against $1,553,102 for the 1916 period. The decrease in net for the eight months to date approximates $1,000,000 in contrast with the 1916 figures for same period.

Has purchased 190 acres at Griffith, Ind., near Chicago, for use as a steam-electrical terminal. This follows similar action by the Erie, Grand Trunk and Pennsylvania Railroads and foreshadows electrification changes to do away with steam traction in the Chicago district.

Chicago, Milwaukee & St. Paul.—A. J. Earling, the new chairman, said that the activities of the I. W. W. had resulted in a heavy decrease of traffic in the way of ore and lumber. In August, he asserted, hardly a single carload of lumber passed over the road, and the lessened haulage would show adversely in the earnings for the month. "Conditions have improved of late," he continued, "as the men who struck in the mines and woods are going back to work. August earnings will show a small decline in gross and a large decline in net earnings. The current month will make a better showing."

It is stated that earnings report for August makes it doubtful whether it can continue to pay dividends on its junior stock. For the eight months St. Paul earned from operations $19,714,501. If earnings during the remaining four months of 1917 should be the same ratio this would give operating earnings for 1917 of approximately $32,700,000. Adding to this $2,800,000 for other income, or about the same as received in 1916, makes a total of $35,500,000. Deductions for taxes and fixed charges will reduce net for stock about $24,500,000, or to $11,000,000, of which $8,109,206 will be required to pay the preferred dividend, leaving approximately $2,900,000 for the common, or a little under $2.50 a share.

Chicago, R. I. & Pacific.—In connection with the contest for directors expected at this company's meeting Oct. 11, N. L. Amster, chairman of the Stockholders' Protective Committee, has sent stockholders an appeal, saying, in part: "Your trust was betrayed when directors published reports showing company was earning not only quarterly dividends but substantial surplus. Your trust was betrayed when directors declared a dividend on Chicago, Rock Island & Pacific Ry. Co. stock, payable in January, 1914, through which many innocent people were misled into buying at advanced prices."

Denver & Rio Grande.—John W. Platten, J. Horace Harding and Harrison Williams, members of the stockholders' committee of the Denver & Rio Grande R. R. Co., have formed a proxy committee to circularize the stockholders, requesting proxies for the annual meeting of the company in Denver Oct. 10. Their slate for the directorships includes George J. Gould, Finley J. Shepard and others. It is reported this road will in October pass from the control of the Gould interests and be dominated by interests in the control of the Missouri Pacific.

Delaware & Hudson.—It is predicted that in the closing four months of 1917 this road does as well as in the same period of 1916, the current calendar and fiscal year will close with earnings on the $42,503,000 capital stock of 11.36%. In the first eight months of 1917 the surplus available for the common increased 26% over a year previously, and in August 175%, so that a showing in the latter months as good as in 1916 is not unreasonable to expect. The coal department is enjoying record business. August surplus for the stock, including the railroad and the coal departments, but not including operations of the Hudson Coal Co., amounted to $970,076, against $354,147 in August, 1916. The eight months' surplus was $2,987,851, compared with $2,317,484 in 1916.

Erie.—It is said that on Dec. 31 will be able to report surplus of approximately $4,000-000 for the calendar year. Of this amount no part will have been earned in the first six months. Erie is short of cars, as is nearly every railroad in the United States, but in fairly good position as to its locomotives.

Grand Trunk of Canada.—A London dispatch states that this company had passed all interim dividends. Inability to obtain an advance in rates, despite heavy increases in working expenses owing to the war, was the reason assigned.

Illinois Central.—Pres. Charles H. Markham, commenting on the heavy traffic which the road has been carrying, said: "Business in the South is wonderful. The Southern railroads will do well right along for some time to come. The South has paid its way out of debt and is enjoying prosperity never heretofore having fallen to its lot."

Lehigh Valley Reports

Earnings and net:	1917	1916
August gross........	$4,866,856	$4,435,645
Net after taxes......	1,062,199	1,207,101
Eight mos.' gross....	35,261,606	31,884,496
Net after taxes.......	7,021,365	8,350,806

Missouri, Kansas & Texas.—Higher operating costs have been offset by continued gains in gross; is also making a good record holding down transportation cost in relation to gross. The road promises to close the year with a surplus over existing fixed charges of perhaps $1,500,000. For the third week of September gross gained $141,705, or 18%, and for the calendar year to Sept. 21 the gain was $5,103,489, or practically 21%.

New York Central.—However unfavorable may be the comparison of net earnings for the first eight months of 1917 with those of 1916, the fact remains that New York Central in the eight months to Sept. 1 earned the full year's 5% dividend with a good margin to spare. Surplus of $14,363,141 after charges equals 5.7% on the $249,590,460 stock.

N. Y., N. H. & Hartford.—After the adjournment of the annual meeting, Oct. 24, a special meeting of stockholders will be held to vote on an amendment to the charters granted by the States of Massachusetts and Connecticut relative to the issue of pfd. stock not to exceed 450,000 shares of $100 par value, which shall be cumulative and entitled to receive dividends at not exceeding 7% annually. It is understood that since April it has bought in about $780,000 of the $45,000,000 note issue, so that the total has been reduced to $44,220,000. When $47,000,-000 notes of New Haven and New England Navigation came due May 1, 1916, $2,000,-000 were paid off in cash out of earnings and balance taken care of by new note issue. Largest interest payments within the ensuing few months are $677,000 Oct. 1, something over $1,100,000 Oct. 15 on note issue about $1,139,000 Nov. 1, $1,222,000 Jan. 1 and $1,174,000 Jan. 15.

Pere Marquette.—The declaration of 1¼% upon the prior preference stock, payable Nov. 1 to stock of record Oct. 15, is the second dividend upon this issue and the first at the regular quarterly rate, the former dividend having been for an irregular period following the reorganization of the company. A straight first mortgage has been created under the reorganization, which should enable the company in normal times to obtain capital from the sale of high grade bonds with interest being earned several times over. The new company starts its career with over $8,-000,000 cash in its treasury.

Pittsburgh & West Virginia.—Is able to pay off its funded obligations out of the year's earnings and leave a satisfactory cash working balance to cover operating needs. In this half year has earned approximately $450,000 net after all deductions for operating expenses, rentals and such charges as were left after reorganization. The coal company, since reorganization, however, has been earning nearly that amount monthly. Some months the coal company's net has run in excess of $450,000, but the average is nearer $400,000. It is therefore, safe to estimate the net available for dividends in the first six months, from both the railway and coal properties, as being in the neighborhood of $3,000,000, the equivalent of the full year's dividends on the $9,100,-000 6% pfd. stock and about 8% on the $30,-200,000 common stock.

Southern Ry.—Although the management considered the position of the property strong enough to restore the 5% dividend on the $60,000,000 pfd., the development and general mortgage 4s did not reflect any strengthening of sentiment toward them. Selling around 65 they are on a yield basis of little less than 6½%.

Southern Pacific.—August earnings broke all previous records for both gross and net. The previous high level for gross was $16,410,014 in May and for net $6,012,586 in June, 1917, so that the gross in August was $306,310 and net $204,849 more than the highest earnings the company had ever recorded.

Union Pacific.—August gross revenues were $389,042, or 3.6% more than in August, 1916. Passenger revenues showed an increase of $530,876, or 26.40%, but freight revenues fell off $270,087, or 3.4%. Operating expenses increased $929,670, or 16.4%, the main feature being an advance of $769,247, or 32.1%, in transportation expenses. Maintenance of equipment outlay increased $316,577, or 30.3%, while maintenance of way decreased 273,881, or 16.8%. Taxes mounted $350,506, or 41.1%. With an increase of 57.59 in average miles of road operated the operating ratio (excluding taxes) increased 6.45% to 58.42%. The increase in eight months' gross operating revenue of $10.007,566, or 14.2%, was made up chiefly of a gain of $6,510,287, or 12.7%, in freight revenue and $2,462,780, or 19.1%, in passenger revenue.

Industrial Digest

Adams Express.—Declares a temporary embargo on all express shipments between New York City and New England, except Government shipments and foodstuffs.

Advance Rumely.—Estimate of business for seven months ended July 31 indicates an increase of about 30%, compared with the similar period a year previously.

American Can.—Earnings in the year ending Dec. 31, 1917, will equal about $20 a share on the common after allowing for 7% dividends on the pfd. Dividends on the pfd. stock amounting to 3.71%, will probably be paid off in December.

American Loco.—And Baldwin together reported to have orders for a total of $200,000,000. In the fiscal year to June 30, 1917, produced $82,213,845 of gross business. Of this $45,000,000 was munitions work and $37,000,000 locomotive shipments. In 1917 munitions work, according to present orders, will run less than $4,000,000; balance is for locomotives.

American Malting.—Directors still considering manner in which 33⅓% accumulated dividends on first pfd. will be paid off. For the year ended Aug. 31, 1917, will probably show net $900,000, against $408,459 in 1916 and $10,974 in 1915, or $10.23 a share on the $8,792,876 of pfd. stock, against $4.54 in 1916 and $0.08 in 1915.

American Smelting.—Reports no immediate prospect of the smelter at Chihuahua being reopened. A little construction work is being done, but it is not with a view to reopening of smelter.

American Sumatra.—Stated to be in line for large profits on its $6,800,000 common during current fiscal period. Profits are estimated between $20 and $25 per share before deduction of excess profits taxes.

Atlantic, Gulf & West Indies.—The large net profits of this company in August represent a strong combination. After excess profits taxes earned in seven months to July 31, 1917, balance for its common better than $28 per share. The August results will also be big.

Central Leather.—Stockholders receive dividends of 9%, comprising 5% regular and two extras of 2% each. The recent extras of 2% was an agreeable surprise. The company will have no cash embarrassment in meeting excess profits tax, has a splendid working capital and has conserved profits during the past two years.

Chandler Motor.—Balance sheet Sept. 1, 1917, shows: Assets, $1,265,885; Liberty Bonds, $278,576; accounts receivable, $284,138; inventories, $3,552,639; plant, $491,882; other assets, $95,182; good will, $5,000,000; total, $10,968,302. Liabilities: Capital stock, $7,000,000; accounts payable, $1,102,071; reserves, $182,862; surplus, $2,683,369.

Corn Products Refining.—Has resumed operations at two of its plants. The Argo plant is grinding about 35,000 bushels and the Granite City plant about 10,000 bushels a day, the operations of both represent one-third of total capacity.

Distillers.—Earnings for the seven months to Aug. 1, 1917, were about $2,000,000, equal to 6% on the $32,282,000 stock. Considered probable that in its fiscal year to Dec. 31 will earn not far from $15 per share on its stock. Distillers under existing war legislation is a denatured alcohol producer. It is making no whiskey or spirits. In the meantime its large stock of whiskey in bond is steadily increasing in value.

Electric Storage Battery.—The profits in the first six months of 1917 have been nearly equal to those for the entire year 1916, or a rate of about 16½% per annum.

Gaston, Williams & Wigmore.—Stated that the new $1,500,000 building, located at 35 to 39 Broadway, New York, likely would be ready for occupancy by May 1, 1918. Established 1914, did $47,000,000 gross business in the year ended March 31, 1917.

Gulf States Steel.—Net operating income for August amounted to $444,747, an increase of $186,153 over the same month in 1916. This is the largest amount earned in any month in the history of the company.

International Agricultural.—For its fiscal years to June 30, 1917, will probably disclose a balance of profits as large as the 9.8% earned on the $13,000,000 pfd. during the 1916 year.

International Paper.—The debt consolidation plan launched early in 1917 is said to be successful. Five issues have been reduced and one paid off, with a net reduction of $2,246,000 in funded debt as compared with Dec. 31, 1916.

Lackawanna Steel.—Net earnings in the current quarter estimated between $6,250,000 and $6,750,000, approximately $75 a share on the stock. From them must be taken excess profits taxes. Estimating these at 40%, the net would be $45 against $34.81 in 1916.

Maxwell Motor.—The refinancing of the Chalmers Corp. reported completed. The operation of the Chalmers plant, under the management of Walter Flanders, of the Maxwell Co., began Oct. 1. The manufacture of the Chalmers passenger car will continue. Maxwell's net profits of $5,368,546 for the year ended July 31, 1917, are equivalent to $29.63 a share earned on $12,778,057 common stock, after deduction of dividends on the 1st and 2d pfd. stocks, compared with $27.53 a share earned the preceding fiscal year.

Midvale Steel.—Estimated the company should earn between $22 and $25 per share on its 2,000,000 $50 shares during the 1917 year. This is after excess profits taxes. Be-

fore excess profits taxes the company is earning at the rate of about $32 per share.

National Biscuit.—Earnings have recovered 20% or 25% from the 1915-16 year is to be explained by the fact that the corporation advanced prices in keeping with higher cereal quotations and again in April, 1917, advanced prices another 20%. Fixation of wheat prices at $2.20 is actually a benefit to a corporation like National Biscuit, which uses annually several million barrels of flour. The 7% dividend on the common is believed to have safely passed its war danger.

National Enameling & Stamping.—Reported that shortly after the beginning of the new year directors will increase the dividend on the $15,591,000 common from a 4% to a 6% basis. For the first seven months of 1917 earned about $40 per share on common and profits for August are understood to have been at the rate of between $45 and $50 per share. Obviously, with average earnings before the war for the common of less than 2%, National Enameling will be a heavy excess profits taxpayer to the extent of 50% of its net.

New York Air Brake.—Earnings are estimated at $50 a share, but in view of the fact the profits in the first half were well over $30 a share, it would not be suprising if they passed $60 a share, which might be reduced to around $40 by excess profits taxes.

U. S. Rubber.—Reports net earnings for six months to June 30, 1917, $7,239,966 (after deduction of $500,000 special war tax), or $27 net for the common, against $15.12 in 1916. This is a record for the company.

Superior Steel.—The president reports: "The company is in good shape as regards contracts for raw materials. We have large quantities of materials booked at what are now considered very favorable prices, while the remainder of our raw material contracts average a little higher than our lowest prices. The company is in a strong cash position, and with the influx of new business, which I confidently expect its earnings will indeed be satisfactory."

Tobacco Products Corp.—Reports net earnings for the eight months ended Aug. 31, 1917, show a gain of 75% over the same period in 1916 applicable to common. Indications are that the closing four months of the year will show an even greater gain than for the first eight months.

United Fruit.—For its fiscal year ending Sept. 30, 1917, is predicted to show a gain in net for interest, depreciation and dividends of 28%. The balance before interest should be in the vicinity of $15,000,000. Interest charges will be several hundred thousand less than the previous year so that a net for the stock of over 30% seems reasonably conservative.

U. S. Industrial Alcohol.—Estimated net profits for September are $1,300,000.

U. S. Smelting & Refining.—Earned $60,000 in July and over $160,000 in August from its Mexican properties. Earnings in 8 months from Jan. 1 to Aug. 31, 1917, are stated to have been $4,311,082 before deducting Federal taxes equal to 7% per annum on pfd., plus $9.04 for 8 months on the common, or about $13.56 per share per annum (27.12%) on common stock.

U. S. Steel.—Reports total earnings at the rate of approximately $37.50 a ton in the second quarter of 1917 before deducting war taxes, etc. In 1916 the ratio of net earnings per ton of steel sold was $21.58. Assuming that the ratio of net earnings a ton on a basis of the new schedule of prices is $22, net earnings would amount to approximately $340,000,000. There is reason to believe that the earnings per ton in the third quarter of the year were fully as great as during the second quarter, but because of the smaller shipments the total earnings were probably about $5,000,000 to $10,000,000 less than during the second quarter. The net earnings before deducting the excess profits tax are estimated between $130,000,000 and $135,000,000. Assuming the excess profits tax to be as great as in the second quarter, the net earnings would be estimated between $80,000,000 and $85,000,000.

Westinghouse Electric.—The sale of the Meriden plant will give Westinghouse about $1,000,000 cash. This sale is of interest because it shows how important are becoming the machine gun requirements of the United States. The Colt interests had to have more plant facilities.

Willys-Overland.—During the 10 weeks of the Sales Congress contest, there were 47,212 Willys-Knight and Overland cars reported sold at a retail value of $39,237,250. Totals are said to mark a record for the medium and high priced car industry. Company is understood to have brought near mechanical perfection a new low priced car which, when announced, is expected to be the most forceful challenge the Ford company has ever received.

Woolworth. — Sales for eight months ended Aug. 31 were $56,563,341, a gain of 12.11%; or about $97,000,000 for 1917 if so maintained, compared with $87,089,271 in 1916. Estimates for 1917 show net earnings of $9,215,000, from which there is to be deducted pfd. dividends of $910,000. This would leave a balance of $8,305,000 for the common, or $16.61 a share, against $15.57 in 1916.

Railroad and Industrial Inquiries

Significant Features of the St. Paul Situation

A. G. S., Philadelphia.—Chicago, Milwaukee & St. Paul has been breaking through new low levels daily, ostensibly on the score of the tremendous decreases which the road has been showing in net revenues. In late months St. Paul has actually failed to cover its common dividend requirements, which are now only 4 per cent, as compared with a 5 per cent rate paid previously for a period of six years, with the exception of 1916 when only 4½ per cent was paid. Prior to 1912 the stock for many years had been maintained on a 7 per cent basis. St. Paul's trouble started with the carrying out of an extensive improvement and expansion program involving the electrification of a large portion of the system and the addition of the Puget Sound Extension. These improvements necessitated the assumption of heavy additional fixed charges to finance the extensions, and when the era of extraordinarily increased costs of maintenance, operation and capital came along about two years ago, the company found itself taxed to the utmost with these new burdens. Initial costs of railroad improvements and extensions are heavy. As a rule they do not begin to earn money or to pay for themselves in a day, particularly when the territory served is undeveloped, as in the case of St. Paul. But this road has a magnificent future. As its territory is developed, the business of the road will undoubtedly expand steadily. The present era of extremely costly operation and maintenance cannot last indefinitely.

From a purely technical market standpoint, it is significant that St. Paul is now selling at the lowest price recorded in almost a generation. In the 100s St. Paul was sold heavily by "insiders" and "big investors." Judging by an analysis of the recent action of the stock on the tape, the same people who sold it fifty points higher are now taking it back. They are the kind of investors who can afford to hold the stock through thick and thin, for the ultimate profit. When the tape tells, as plainly as it now does, the story of accumulation, we may safely assume that those in a position to know have vast confidence in the future of St. Paul. If that assumption is correct we cannot blame them for wishing to get their stock as cheaply as possible. Insidious news and rumors exert their effect on the minds of small stockholders to the extent of frightening the latter out of their stock. To the close observer, it appears that the comment in the financial columns about St. Paul, the news, the financial articles written concerning it, etc., are now extravagantly "bearish." This contrasts significantly with the "bullish stories" which were circulated diligently when the stock sold at double its present price.

Our attitude on St. Paul is that while the stock may go lower, it will eventually "come back," and we are warning our readers who hold the stock at much higher prices not to become too pessimistic. If you can afford to see your stock through a possible further decline, even a temporary dividend suspension, we advise you to keep it and make up your mind that you will not be "shaken out" at a tremendous loss to the end that some one else can profit.

Recommending a Switch to Southern Ry.

D. B., Rock Island, Ill.—Lake Erie & Western earnings are running at the indicated annual rate of less than 1 per cent on the common stock as compared with actual earnings of 6.83 per cent for the 1916 fiscal year. The gross revenues of the road so far this year have shown very satisfactory increase, being about $500,000 ahead of 1916 for the seven months to July 31. But expenses of maintenance and operation have eaten up all this gain, and much more besides. Also fixed charges have played an important part in reducing the net available for dividends. The result is that surplus for the seven months ended with July, according to the latest Interstate Commerce Commission reports, was only $482,786, compared with $820,372 in the corresponding period of 1916. In July the surplus amounted to only $43,798, compared with $169,169 for July 1916. In 1916, which was an extraordinarily prosperous year, the company earned 6.82 per cent on its common stock, but that was the first year since 1907 that anything had been earned on the common stock and during that period deficits were shown in four years before payment of bond interest. You can readily see that the advance in the stock last year was based on little of a permanently tangible nature. The outlook now is not encouraging and we do not recommend a purchase of the stock. However, you might profitably invest in Southern Railway common, a stock with very promising possibilities and one which is likely to go on a dividend basis within the next year or two. We do not recommend a purchase of Southern Railway with the idea that immediate profits will be earned, but it is an excellent long pull speculation if one can afford to tie up money in it and disregard temporary fluctuations. A purchase of an equal number of shares of preferred would form an excellent semi-speculative combination. The preferred dividend would carry the entire investment.

Attractive Rails

E. J. G., Trenton.—About the only class of issues which are now in a sound investment position, such as would warrant their purchase for permanent investment are some of the high grade railroad stocks. We can recommend purchases of Atchison, Topeka & Santa Fe, Chesapeake & Ohio, Southern Railway preferred and common, Southern Pacific, Great Northern, Northern Pacific, Union Pacific and Canadian Pacific, to those investors who are willing to buy them for a long pull and to disregard possible temporary declines in sympathy with a further reaction in the general railroad list or under the influence of unfavorable general market conditions.

A Semi-Investment Peace Stock

E. L. G., Columbia, S. C.—J. I. Case appears to be an excellent semi-investment, for it is very largely a peace stock. The company is engaged in the manufacture of agricultural implements and should benefit by the expected large demand for such products after the war. The company has outstanding $12,150,000 7% preferred stock, $8,300,000 common and $9,000,000 first mortgage gold bonds, due $500,000 each December 1, 1917 and 1918, and $1,000,000 each December 1, 1919 to 1926.

In the year ending December 31, 1916, the company reported gross sales of $13,047,257, and net profits available for dividends of $1,647,721. After the payment of 7% dividends on the preferred stock, there was carried to surplus $797,221. In the previous year the gross business was slightly larger and there was carried to surplus $1,081,325 after the payment of preferred dividends. As of December 31, 1916, the company reported a net working capital of $23,098,330, which is the highest in its history. Altogether, the company is in a very satisfactory financial condition at the present time so far as we can learn, although of course it is handicapped as are all other companies of the kind by the high prices now prevailing for raw materials and labor. This condition of affairs may lead to a further reduction in net profits this year, but it does not seem likely that the preferred dividend will be endangered. We recommend holding the stock.

A Risky Speculation, but One Which Is Attractive

E. L., New Haven, Conn.—Superior Steel has attractive speculative possibilities. This company is earning at the rate of about $40 to $50 a share per annum, or, in other words, it is earning its present market price. Dividends have just been inaugurated at the rate of $6 a share per annum. While we are convinced that the company is heavily over-capitalized and that in a period of less prosperity for the steel industry following the close of the war, its earnings will show a severe shrinkage, we also know that there is basis at present to stir up speculative enthusiasm for the stock if general market conditions become favorable to a renewed advance. But the fact should not be lost sight of that the stock is in a risky speculative position and you should protect your commitment in it, if you hold it, with a stop loss of 3 points, following up any advance in the stock with your stop.

Swift & Co.'s Profits May Be Quite Restricted

R. O. P., Jacksonville, Fla.—Swift & Co. made a very brilliant showing in the fiscal year ended September 30 last with over $27 a share earned for the stock. The company is in a very strong position financially, and the stock at its present price could not be considered high on the basis of earnings. It had been expected that Swift & Co. would benefit materially by the placing of Government orders for supplies for the Army. Judging by the attitude of the Government, however, in buying its various military supplies, it does not appear that companies to which it gives orders are going to be allowed to make any more than a normal profit. This prospect removes a certain amount of speculative attractiveness from the stock. Generally speaking, it is not an opportune time to buy or hold such a stock for a long pull because of the uncertainties in the war situation, etc. It would be wise, we think, for you to sell the stock on any good rally, especially if you can do so at a profit, and "get long of cash," so that you will be in a position to take advantage of lower prices for industrial stocks later on, when undoubtedly, many of the best grade issues will be obtainable at genuine bargain prices.

Midvale's Dividend Not Secure

P. S. C., Atlanta, Ga.—Midvale Steel earnings available for dividends will be severely curtailed by excess profits taxation. Aside from that Midvale Steel's position must be considered very speculative because the company is heavily over-capitalized. Midvale is the product of boom times. While the management identified with it is regarded as highly capable in many respects, the test of what the company can do under adverse conditions has been lacking so far. We believe that in the next period of depression for the steel industry, Midvale will be unable to continue the payment of its present dividend of $6 a share per annum and that the price of the stock will eventually drop very much below the current quotation. We suggest that you sell the stock.

Willys-Overland in the Aeroplane Field

J. C. G., Lyons, N. Y.—Willys-Overland declined recently in sympathy with the reaction in Curtiss Aeroplane, whose advance was made the basis for speculative buying of Willys-Overland. Speculative interest in all the aeroplane stocks has received quite a sharp check and may not be revived right away, but we expect that barring definite indications of early peace, aeroplane stocks such as Curtiss will again come in for a very large share of public interest. The Willys-Overland Co. controls Curtiss. The affiliation should prove a very profitable one, for the Curtiss Co. is without doubt in the most favorable position of any aeroplane manufacturer to handle the bulk of Government business. But the capacity of the Curtiss Co., and for that matter the combined capacity of all the strictly aeroplane companies, is not sufficient to turn out machines on the scale which will be required by the Government if the war continues, and it will therefore devolve on such companies as Willys-Overland to adapt its manufacturing facilities to the manufacture of aeroplane motors. The Willys Co. can do this easily. In view of such a situation it appears that there are big speculative possibilities in the stock.

BONDS AND INVESTMENTS

Preferred Stocks Which Are Out of Line

Some Are Selling for High, But There Are Many Good Investment Bargains Available

By ROBERT S. PIERSON

PEOPLE have been buying stocks recently because they are cheap. At least, it's better to buy them now than when they are high. However, it's worth remembering that prices are always relative, and it requires but little figuring to prove that securities keep on going up as long as conditions favor the advance and down until conditions again reverse. Therefore, in such a long and well defined bear market such as we are now in, who can put a limit on an active stock and say, "So far and no further?"

It follows that a discussion of anomalies in values doesn't indicate the necessity of speed in buying those stocks, which measure up. There will be plenty of bargain days. I hope that the prices of these stocks will be watched carefully and purchases, if any, made mostly after preparations to buy on a scale down, or better still, on the way up.

Issues That Are Too High

You will notice that in a bear market like this, first one security is hammered and then another. Some of those which still seem to have a drop coming are the very best of the preferred stocks. It would be interesting to compare directly stocks which seem to be selling too high with those actually selling at bargain prices, as was done last month in comparing bond values out of line. However, the stocks here discussed vary too much to be compared that way, so I will name issues that are, in my judgment, selling too high and then tell in a little more detail about others which will well repay the time taken in checking them up.

On the whole you will notice that it is the safest securities that are selling relatively dear. Take Union Pacific preferred for example, a 4 per cent. issue, selling around 78. It yields there a little over 5 per cent. Baltimore & Ohio preferred at 67 nets less than 5.10 per cent., and Atchison preferred at 94, but 5.03 per cent. Norfolk & Western preferred yields less than Union Pacific preferred. These stocks are all too high simply because under present conditions money is worth more. Any number of good bonds yield much more, and British Government secured 5½ per cent. notes, due as close as 1919, actually yield over 7.80 per cent. Short term notes as good as one could wish are selling from 6.20 to 7.80 per cent., while preferred stocks must be considered, as far as ultimate market action is concerned, as bonds without any maturity at all.

U. S. Steel Preferred

U. S. Steel preferred, the premier senior industrial stock, is now selling around 115-116, yielding 6-10 per cent. It is down only eight points from the very highest of 1916 figures, and I believe that it must sell lower to line up with other high class securities. The U. S. Steel s. f. 5s, with the speculative drawing chance attached sell on a basis but a point lower than the preferred stock and the sinking fund 5s are too high to be in line with other bonds of its class.

American Sugar, another splendid 7 per cent. preferred stock, is selling at 115. American Car & Foundry preferred at 108, is quoted at nearer what it is now worth, but like Daniel Drew's moon, is still too high, as is National Biscuit with a wide quotation of 110-120.

Montana Power preferred, at around 108, looks better than it did last year,

but I would rather wait a while and pick up some of the common than to pay over par for the preferred.

American Woolen has been, and is making a good deal of money, but its proved earning power over a series of years, and its prospects after the war do not make it attractive to me at 94, and the same applies to Allis-Chalmers at 75-80, though the latter may be worth a little attention later on. Someone else can have the speculative possibilities in International Paper preferred, even though it sold as high as 109½ last year.

Chicago & Northwestern preferred, which comes ahead of the common up to 10 per cent. after both issues receive 7 per cent., and has returned to its holders 8 per cent. since 1902, is quoted at 140-145 figuring a basis of about 5.05 per cent. It looks like a good short commitment, but it is so closely held that at last reports no one would loan it. I believe a good deal of it will come out into the open before long.

Preferred Stocks Which Are Cheap

Chicago, Milwaukee & St. Paul preferred is the mystery stock of the present period. Even during the panic times of 1907, after going into the Puget Sound extension at just the wrong time, and thereby losing about a hundred million dollars in excess costs, the stock did not sell below 130 and as a 7 per cent. payer, sold up to 181 in 1909. Pessimistic penciling indicates about 2.5 per cent. on the common issue for the 1917 year. Figuring for the long pull St. Paul preferred is selling way too low. Sentiment and further dropping off in earnings and general investment conditions may drive the price much lower and I would advise buying on the way up and not on the way down. Then the worst will have been discounted. Anyone passing the stock up on account of present day newspaper notices, however, isn't to be placed in the class of shrewd investors.

Bethlehem Steel preferred The fearsome talk these days about this company reminds me of the same kind of talk in the early part of the war. It was all going to the dogs then and it's going into the pup state now. The new preferred stock is cheap—it's way out of line—it's one of the cheapest stocks on the list and when a few more people get afraid of it, it will be time to load up. It was publicly offered as high as 106, and now the stock walks the street with no place to go at 94. Off in the back ground is the 7 per cent. preferred, ticketed at around 88 and yielding only 7.85 as compared with the newcomers return of more than 8.50. The new 8 per cent. preferred is not only prior to the 7 per cent. issue as the 8 per cent. issue alone is cumulative but has a call on the common B stock at 115. It has back of it something like $500 assets per share and average earnings from 1912-1916 of $104 a share. It may go lower, but you will want to tell your children how low you bought it and to be sure you have a good story, buy it down and buy it on the way back.

Atlantic Gulf & West Indies has been such a loudly voiced example of a war company that it may be surprising to know that the company has shown in the past seven years not less than something over five and one-half per cent. earned on the preferred stock figuring on the actual earnings of subsidiaries. In 1915 the stock earned over 20 per cent. and in 1916, nearly 55 per cent. It's pretty near anybody's guess what the present year's earnings will be after deducting the excess profits taxes, but it would make a pessimist work overtime to show anything but rosy prospects for the preferred for as long a time forward as the limited human mind can project itself—and I haven't forgotten about what the government may do in commandeering tonnage. Present indications are for about $40 to $50 a share this year on the common.

General Motors is another six per cent issue and is selling down to nearly 80. This stock is really a wonder for earnings. In 1911, 23.4 per cent. and in 1916 the figures were actually 153 per cent. Of course the motor business cannot always maintain the 1916 level but General Motors preferred seems able to take care of itself under pretty near any conditions. In 1914 for ex-

ample, showing 48.38 per cent., and the average annual earnings for the past six years has been over 77 per cent. In spite of any possible prejudice against an industrial company one has to admit that this stock is in a strong position. It may be cheaper, but it is cheap.

United States Rubber can't get over the fact that it drove the hardest sort of a bargain with some of the cleverest men in this country in selling them the late lamented 5 per cent. bond issue at a price at least ten points too high and then rubbed it in by giving the bond men a fine banquet. However, don't forget that this bond issue is perfectly good and has put Rubber on a firm but elastic footing. Then you know the first preferred pays eight per cent. and sold over 115 last year. Now it is down to just a little over par. The present big earnings won't be kept up in a period of general depression but they aren't needed to pay the dividend. The company made a big mistake of paying common dividends too soon. They won't begin again right away, but the preferred, though not cumulative, looks cheap at present prices, and it is worth putting in your little vest pocket-book and checking up every little while. Of course this eight per cent. issue is not in a class with the new preferred of Bethlehem Steel.

Northern States Power 7 per cent cumulative preferred stock at around 94 is out of line. This is a good strong issue and reported earnings of nearly 10 per cent. last year and 9.30 per cent. the year before. Not very much perhaps, but the business is mostly hydroelectric light and power and in a good stable district, not down in a region dependent upon iron and steel output for its prosperity. Northern States is up in a good farm territory serving 138 communities in the middle west, including Minneapolis and St. Paul. Over 3,000 of the company's customers own preferred stock, and that's a pretty good indication of fair service. Unless unexpected unfavorable developments turn up the lower such a stock is quoted, the cheaper it is. If you have to do any averaging in stocks—most people do their averaging with "has beens and goers" like New Haven—do it with stocks like this after our good friend "General Conditions" shows signs of recuperating.

Mexican Petroleum preferred. Dividend requirements are being earned more than eight times over on this issue, which pays 8 per cent., and is selling around 91½ to yield about 8.7 per cent. The stock is non-cumulative and the management deemed it advisable to pass the dividends in 1914 and 1915 when chaotic conditions existed in Mexico, but notwithstanding this fact the stock proceeded to earn its dividends more than three times over in both these years and has earned an annual average of more than 32 per cent. over the past six years. The Mexican Petroleum Company, Ltd., does not directly own or operate any plants or properties but through control of several subsidiaries is to-day the largest producer of oil in Mexico, besides having important interests in California with a well fortified distributing system in the United States including refining and storage facilities along the Atlantic Seaboard and the Gulf of Mexico. Of course it must be remembered that this is an oil company which is enjoying exceptional prosperity with the boom business, but the management is conservative and the company has demonstrated its earning capacity over a period of years, and is firmly intrenched. While the stock cannot be considered a widow's or orphan's investment it has good possibilities for the business man who wants his money to earn better than 8 per cent. with some degree of safety and chances of appreciation.

International Mercantile Marine preferred is at least as attractive as is Atlantic, Gulf and West Indies preferred. Marine, though selling higher is a 6 per cent. issue, is declaring the full rate and has, as the world knows, some 89 per cent. of accumulative dividends coming. At least a large part of the money required for these back dividends has been in the treasury, and now is invested in British Government obligations. In the calendar year 1915, the company showed $26,299,595 earned on

the $51,725,721 preferred stock, but there undoubtedly was full and generous reserve and depreciation allowances made before the final figures were given out. In view of the present and prospective marine conditions, and in spite of Government commandeering, the question of the distribution of unpaid dividends is when, and not whether.

The new Rock Island 7 per cent preferred stands ahead of the 6 per cent issue to the extent of just one per cent., and both are cumulative up to 5 per cent., from July 1, 1917, but not payable until January first of next year. For the year 1916 over 18 per cent. was shown on both classes of preferred and earnings are running at the rate of between 14 and 15 per cent. this calendar year. The Rock Island system is in splendid shape, both physically and financially. The 7 per cent. issue at 62 looks even better than the 6 per cent. stock at ten points less. The dividend meeting isn't until October 11, so I wouldn't buy too much of the stock until after that date, but whether the dividend is declared or passed up for the present, the stocks are way out of line and some people are going to make a lot of money backing up that idea. The 7 per cent. issue has already sold up to over 85 and the 6 at 71. You'll remember Messrs. Daniel Reid et al. paid a rather high price for a large block. You won't have to pay so much for yours.

St. Louis-San Francisco, fresh from receivers' hands, is enjoying a new lease of life. The new preferred stock is 6 per cent. non-cumulative and only $7,500,000 was issued under the reorganization for the readjustment of the outstanding indebtedness. Earnings are running better than 25 per cent., as compared with practically no earnings at all the previous year. When you start buying this stock on the next break in the market you might remember that the Pine-Taylor estate was founded by backing Delaware, Lackawanna & Western. Harriman didn't lose any money either when he picked them out cheap, but good, and one of Wall Street's skyscrapers is a monument to a man who sold his household goods and bought New Jersey Central. But there is no use getting desperate and taking too many chances. I can't get over my long standing belief of the necessity of wide diversification.

Cities Service preferred. This 6 per cent. issue has been a live one on the desks of anyone whose work, like mine, consists in analyzing investments. Last year it sold up to nearly par and to-day it hangs around the very low eighties. The Cities Service advance in earnings has approached the phenomenal and the company hasn't paid it all out in cash dividends either. Hence the oft made query as to whether it isn't selling for a lot less than it's worth. I don't think it is. In the first place it is a 6 per cent. issue and at, say 83, shows only a little over 7 per cent. Any number of perfectly good bonds will do that, and I have a feeling that if and when, the big oil and gas earnings of Cities Service show a serious downward tendency, the preferred stock, though probably not a bit endangered, may drop down even from current quotations. There is a big issue of it out. It seems to me that Cities Service preferred is selling for just about its worth these days, maybe a little bit too high. It is not far out of line, but most people seem to think it is, so it goes on our list.

Wilson & Company 7 per cent cumulative preferred has sold right along too low and the company it succeeded has for many years shown a good strong earning power and last year indicated about 48½ per cent. on the preferred issue. The steady nature of the packing industry is proverbial in industrial lines. Wilson preferred is simply selling cheap at around par. The best it could do this year was 106¼ and it's now selling at about 100. I would rather have it than some of the preferred stocks selling ten or more points higher but that doesn't mean that I would put in a market order right now with all my wife's relatives' money. They might feel aggrieved if present low prices look high later on. Bargain days are not yet over.

What Every Investor Ought to Know

Speculative Bonds and Investment Stocks — Why the Investor Must Learn More Than Mere Definitions of Bonds and Stocks—John K. King's Problem

By JAMES KENNEDY

MR. JOHN K. KING was in the structural bridge business in Cook County, Illinois. He had succeeded in making an excellent living and had put aside a sturdy surplus. One day the Big Men held a meeting and decided that it would be advisable to buy up the King plant. John K. was nearing his sixty-ninth year and decided that he had better meet the inevitable, but he was a keen business man and the result of the conference was that he had $500,000 cash and no business.

John K.'s Observations

What to do with the $500,000? During the years of business success, John K. had concentrated all his efforts on his own business. He knew how to make money in that business and the effort had been strenuous. He thoroughly realized that he could make money, but he had never had any training on the subject of how to keep it. The surplus accruing from the business had been turned over and over. Now that he had the actual cash, he experienced stage fright. He appreciated the fact that the man who has dollars is the target for every man who seeks dollars.

The problem to be met was the safe investment of these funds, which would give him a good income during his remaining years and leave the principal intact for his two sons, who were at this period in school. John K. had been a widower for the last ten years.

It is never too late to learn. Of course he had the superficial knowledge of investment which the average man gets in daily contact with worldly affairs and his mental observations summarizing this knowledge were:

"So far as I can learn there are but five methods of investing. I have the choice of savings bank deposits, bonds, stocks, investments in land, either by purchase or mortgage, or building and loan associations. I have read, sought advice, and investigated on every side. Each kind of investment has its good points and each kind has its evils.

"I have therefore come to a conclusion which leaves me no better off than when I started. I have learned the terms and meanings of the classifications but in every case I find bad as well as good. In plain words I want the best for investment and having eliminated all classes except bonds and stocks, I cannot find that bonds are better investments than stocks or stocks any better than bonds. It depends on the individual case and there is absolutely nothing in the names. A rose by any other name would smell as sweet.

"My good friend Jackson, the head of a very conservative investment firm tells me that I should buy bonds. He is of the opinion that it is much safer to be the creditor of a corporation than a partner. But my judgment tells me that this is not always true, for there are plenty of creditors who never get their money back and, on the other hand, there are plenty of partners who never derive a cent from their participation in the business. By sound reasoning the conclusion is easily reached that: *Bonds are not necessarily a good investment because they are called bonds, and stocks are not poor investments simply because they are called stocks.*"

What the Terms Mean

John K. King decided to plot out in as few words as possible the elementary definitions of the principal forms of corporate investments and make his comparisons to find out where he could get the best investment in each class.

With pencil, note book and some technical volumes, the result was this:

Bond—An obligation of a government, a municipality, or a corporation, secured by promise, legal ordinance or mortgage, to pay to the lender interest and principal, when due, in return for a loan to said government, municipality or corporation.

a. First Mortgage Bond is one which constitutes a first lien upon the property.

b. Second and Third Mortgage Bonds constitute second or third liens, as the name implies.

c. Consolidated Mortgage Bonds are issued to take up and fund the various prior bonds. They can become first liens when prior mortgages are retired.

d. Second Consolidated Mortgage Bonds are, as the name implies, subsequent liens to the first of their kind.

e. Income Bonds are secured by mortgage on the income of a corporation, after prior claims are paid.

f. Collateral Income Bonds have a protection depending on certain securities deposited for the protection of the principal—but both "e" and "f" are hardly more than promissory notes.

g. Collateral Trust Bonds are issued against collateral or securities deposited with a trustee, who may sell the deposited collateral to redeem the bonds if conditions are not fulfilled. There are various other forms of Collateral Bonds such as Convertible Collateral Trust Bonds. The average investor needs a Philadelphia lawyer for these.

h. Debenture Bonds. These cannot be definitely defined. Sometimes they are no more than an unprotected note of the corporation and again they eventually become first mortgages and have sinking funds. The value depends on the character and standing of the corporation.

i. General Mortgage Bonds constitute a mortgage on the entire system or plant. Part may be first mortgage and part second or third. The value must be learned from a complete study of prior mortgages.

j. Sinking Fund Bonds may be of any class of mortgages and imply a reserve set aside each year to pay the principal when due.

k. Improvement and Extension Bonds are issued against betterments, additions, etc. The investor needs to observe caution in this case. While they may be a first lien on extensions, they might also be used to cover up "reckless operating expenses."

l. Car Trust Bonds are secured by mortgage on rolling stock and on non-payment the owners may seize and sell the cars mortgaged.

m. Certificates of Indebtedness, Trust Company receipts, Receivers' certificates and a host of other forms of obligation constitute the less used and less known varieties of bonds.

The *mania* for issuing different kinds of bonds is as widespread as the tulip mania once was in Holland. The exact legal status of different kinds of bonds can only be defined by the lawyers. The laws of the various states affect the same classification in different ways. As the eminent writer, Edward Carroll, Jr., says: "Many bonds partake of the nature of several classes—thus a First Consolidated Sinking Fund, a General Consolidated. A General or an Income Bond, where no second mortgage exists on a property, may be practically on the same footing as a second mortgage on another property.

Various kinds of bonds may be Convertible Bonds—they may be converted into stock at a certain time, at a certain price and under certain conditions. Some may be good and some bad, depending on the condition of the corporation and the terms.

An Investment Stock

John K. King read over the above notes, which he had made, with considerable interest. He summarized them as interesting but not conclusive. He was pleased to be able to learn the various terms and definitions, but, as he said to himself, "I do not see how these definitions are going to help me one bit in selecting an investment; for they are only names at the best and any one name may be just as good as another. Let us investigate the stock form of investment."

The Forms of Stock

The second part of the note book, therefore, summarized the story of stocks as possible investments. As in

the case of the bond, the definitions were set down as a basis of determination as to the advisability of an investment of this character:

"What is stock? A share of stock represents an interest in the business—not as a bondholder, who is a creditor, but as a partner. The more shares owned the greater is the owner's proportion in the business. In actual practice the small shareholder delegates his vote by proxy. Stock is never a lien on the property. It is simply the right to share in the profits and losses and all creditors, of any nature, must be paid first.

"Preferred stock primarily means a form of ownership which has a preference over all other classes in the payment of dividends. This sounds well, but there are cases where the stockholder fares better by holding common stock. The preferred shares may be limited as to the amount of dividend and the common stock may, in a successful company, get the largest share. Further than this, the common holders may have the privilege of voting—carrying on the business—and the preferred holders may be deprived of any voice in the matter.

"There are second and third preferred shares in some corporations whose holders get dividends, or are promised them, before the common holders. These, in like manner, may be limited as to dividend, or may have provisions regarding convertibility into other forms of corporate stock. The value of all preferred shares may be impaired by placing burdensome mortgages on the company, and in some cases, the common holders only have the right to vote on such proceedings.

"Common stock holders are the last to participate in any distribution of profits or net earnings. In exceptional cases, where net earnings are very large and a limit is placed on dividends to anterior issues, the common holders get the greatest share.

"Assessable and non-assessable stocks are forms which the very names designate as definitions. Assessable stockholders are often liable to creditors to the amount of the par value of their stock, while non-assessable shares carry all the privileges but no liabilities other than the possible loss of the original cost of the stock.

"Cumulative stock is often worth while. Its feature of interest is that when dividends are not paid as promised they accrue as obligations before the common stock can have an interest. Crucible Steel preferred and Corn Products Preferred are examples of securities of this nature which paid up back dividends. Non-cumulative stock improves the chances of subsequent shareholders. If a preferred stock is non-cumulative, the common stockholder has a better chance to participate in profits, if the business is ultimately a success.

"Guaranteed stock is usually the stock of a company which is under the control of another, the latter guarantees the payment of the dividends. The name sounds good but the guarantee is only as good as the soundness of the guarantor"

A Speculative Bond

Conclusion

The astute and careful John K. King, potential investor, studied these terms and definitions. What had he best do with that half million? The very first consideration was to forget the definitions and terms as the basis for investment.

Because a bond is called "First Mortgage" does not stamp it as a good investment. Because a stock is not stamp it as a "common" does poor investment. Back in 1908 Mr. King could have purchased Iowa Central First Mortgage 4's at 81 and refused Sears Roebuck & Co. common stock at 40. In 1917 Iowa First 4's are selling at 45 and Sears Roebuck common at 160.

Investment Advice

Never invest in a *name*. Invest in a security because it is *good*, no matter what its name may be. What actually happened to John K.'s half million will be told in the next article.

How to Compute the War Income Tax

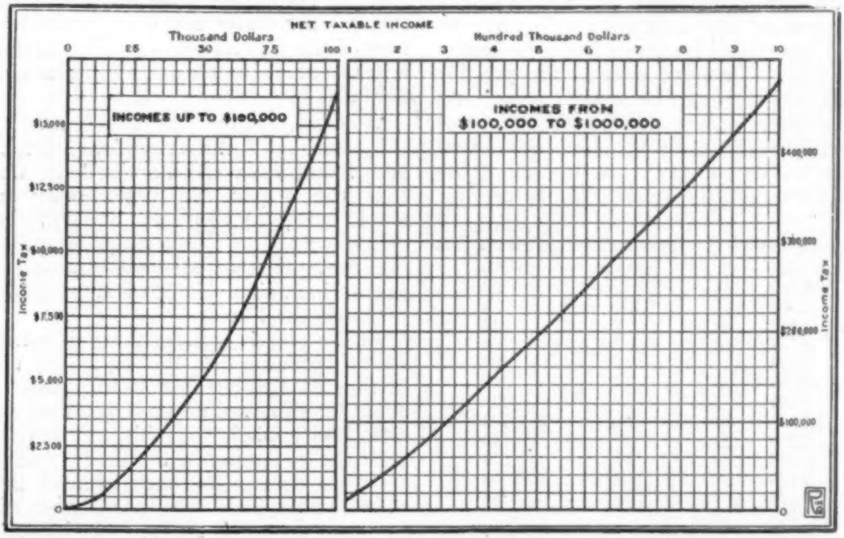
By PHILIP N. RING

ON May 9, 1917, the Ways and Means Committee introduced in the House of Representatives a measure calculated to raise the enormous sum of nearly $2,500,000,000. After five months of debate and discussion, this bill in a modified form has been signed by the President.

The new taxes are to apply as an addition to the present rates, which were put into operation under the law of September 8, 1916. One of the principal changes in the new bill calls for a new normal tax of 2 per cent. on all non-exempt incomes in addition to the old normal tax of 2 per cent. The exemption clause has been changed so as to take in a larger class. Where the old law permitted the exemption of $4,000 for married persons and $3,000 for single persons, the present ruling lowers this amount to $2,000 and $1,000 respectively. A further exemption of $200 for each child under eighteen years is allowed.

Thus a married man with a total income of $5,000 would pay an income tax of $80. The law of 1916 permits him to withhold $4,000 as non-taxable. Therefore his tax would be (under the old law) the old normal tax of 2 per cent. on $1,000 or $20. Under the present measure, however, he is permited an exemption of only $2,000.

Therefore, from $2,000 to $4,000 income, only the new law applies, and he is taxed 2 per cent. on $2,000, or $40; while from $4,000 to $5,000 income both the old and the new laws apply, so that he is taxed 4 per cent. on this $1,000, or $40 more, making $80 in all.



A single man was exempted up to $3,000 under the old law, but to only $1,000 under the new law. Hence he would now be taxed 2 per cent. on $2,000 and 4 per cent. on $2,000, or a total of $120 on his $5,000 income.

As passed by the Senate, the proposed normal tax will be imposed only on citizens and residents of the United States, not on non-resident aliens, although the new surtaxes will apply to the net incomes of every individual. Also, this law does not extend to Porto Rico and the Philippine Islands.

On incomes between $5,000 and $7,500 there is a new surtax of 1 per cent.

on the amount by which $7,500 exceeds $5,000 or 5 per cent. (2 per cent. plus 2 per cent plus 1 per cent. surtax) on $2,500. With each successive class a rapidly increasing surtax is added until incomes of $1,000,000 are reached. All incomes above this amount will pay a surtax of 50 per cent. on the amount by which this income exceeds $1,000,000.

It must be kept in mind that these surtaxes are in addition to the normal taxes and surtaxes under the old law. These latter commence at incomes of $20,000.

To figure out an income tax is an exceedingly tedious and intricate process. In order that our readers may determine the sum they will have to pay on their incomes for 1917 under this law, we have prepared a graphic whereby this can be readily done. As amounts lower than $100 are not plainly read on the graphic, the following table will give the tax on gross incomes until the graphic can be used:

Total Income	Married Persons' Tax	Single Persons' Tax
$1,500	Exempt	$10
2,000	Exempt	20
2,500	$10	30
3,000	20	40
3,500	30	60
4,000	40	80
4,500	60	100
5,000	80	120
6,000	130	170
7,000	180	220
8,000	235	275
9,000	295	335
10,000	355	395

The graphic is figured on net incomes of a married person and allows for an exemption of $2,000. A single man should subtract $1,000 and add $40 to the amount as read from the graphic. (This $40 represents the additional *normal* tax paid by the single man.)

For example, to find the income tax on a net income of $50,000. First look on the graphic for "Incomes from $5,000 to $100,000" and find the line at the *top* of the chart which represents $50,000. This will be found midway between the $40,000 and the $60,000 classes. Follow this line down until it intersects the curve and then follow across to the left to the scale where it will be seen that the income tax on $50,000 will be $5,500.

The Treasury Department has given a ruling on section 209 of the War Profits division of the Revenue bill under which all earned incomes over $6,000 will be taxed 8 per cent., in addition to the heavy taxes already imposed under the Income Tax Law.

This works out as follows: A man having an income of $10,000, $8,000 of which represents salary and the remainder, income from stocks, bonds, etc., will pay a tax of $355 (his regular tax on $10,000 under the Income Tax section of the law) and $160 (8 per cent. of the excess of $8,000 above $6,000, his tax under the War Profits section of the Revenue Bill). This makes a total of $515 tax on an income of $10,000.

When attention was first called to this section of the law, Congressmen and Senators were horrified to find that the 8 per cent. additional tax would apply to them, but a modifying clause was soon found which permited the exemption of all government officers, including Congressmen, Senators and the like.

At the present writing there is considerable agitation for the repeal of this section of the law but as Congress is about to adjourn until the December session, it is unlikely that this will be done until the beginning of the year. Such a storm of protest has been aroused that there is little doubt that the question will be taken up when the new session convenes. Congressmen have fared very well under all the war legislation for, in addition to the exemption clauses in the income tax law, it will be recalled that the workings of the selective draft assumed that the services of the Congressmen were of such value to the nation that it would be unwise to expose them to the discomforts of the trenches.

To apply the graphic to this ruling on the "excess profits" of salaried men it is only necessary to take 8 per cent. of the excess of your salary over $6,000 and add it to the amount of the tax as read from the graphic.

BOND BUYERS GUIDE

A Classification of Listed Bonds

According to Character and Yield

IN this table the more active investment bonds listed on the New York Stock Exchange are arranged in classes and according to yield in each class. The table is for purposes of comparison only and does not attempt to determine the investment rating of any bond except to the degree specified in the headings of the different groups. The object is merely to show relative yields in each class.

GOVERNMENT BONDS

	Due	Interest Period	Approx. Price	Yield
U. S. Liberty 3½s	1947	J—D	99.95	3.50%
Cuba Exter. 5s, Ser. A	1949	F—A	97.	5.20
Dom. of Can. g. 5s	1931	A—O	94⅝	5.60
Dom. of Can. g. 5s	1926	A—O	94½	5.77
Dom. of Can. g. 5s	1921	A—O	95½	6.40
U. K. of Gt. Brit. & I. 5-yr. 5½ notes	1921	M—N	93⅜	6.50
U. K. of Gt. Brit. & I. 2-yr. 5s	1918	M—S	98	7.00
Amer. Foreign Sec. 5s	1919	F—A	95½	7.50
French Repub. 5½s, Secured Loan	1919	A—O	97	7.60
Anglo-French 5 yr. 5s Exter. Loan	1920	A—O	92¾	7.75
U. K. of Gt. Brit. & I. 3-yr. 5½ notes	1919	M—N	95¼	8.00
Japanese second series 4½s German stamp	1925	J—J	78	8.25
Paris, City of, 5-yr. 6s	1921	A—O	91½	8.50

R. R. BONDS LEGAL FOR N. Y. STATE SAVINGS BANKS

	Due	Interest Period	Approx. Price	Yield
Pennsylvania R. R. consol. 4½s	1960	F—A	100½	4.45%
Chic. & No. West general 4s	1987	M—N	89	4.50
Del. Lack. & West., Morris & Ess. 1st gu. 3½s	2000	J—D	78	4.50
Union Pacific 1st g. 4s	1947	J—J	89¾	4.62
Atch. Top. & S. Fe gen. g. 4s	1995	A—O	86	4.70
N. Y. Cent. R. R. ref. & imp. 4½s "A"	2013	A—O	91	4.70
N. Y. Cent. & H. R. R. R., Lake Shore g. 3½s	1997	J—D	75¼	4.70
Illinois Central 1st g. 3½s	1951	J—J	78	4.75
Nor. Pacific prior lien g. 4s	1997	Q—J	84½	4.75
Nor. Pacific general lien g. 3s	2047	Q—F	61½	4.80
Pennsylvania R. R. general 4½s	1965	J—D	93½	4.85
Union Pacific 1st & ref. 4s	2008	M—S	83	4.85
Atl. Coast L., 1st g. 4s	1952	M—S	84⅝	4.90
Chic., B. & Q., Illinois Div. 3½s	1949	J—J	77⅜	4.90
Chic., B. & Q., general 4s	1958	M—S	86	4.90
Louisville & Nash. unified g. 4s	1940	J—J	87½	4.90
Del. & Hud., 1st & ref. 4s	1943	M—N	86⅛	4.95
So. Pacific R. R., 1st ref. 4s	1955	J—J	84	4.95
Chic., St. Paul, M. & O. cons. 6s	1930	J—D	109	5.00
Balt. & Ohio, 1st 50-yr. g. 4s	1948	A—O	83½	5.10
Norf. & West. gen., g. 6s	1931	M—A	109	5.10
Illinois Central 1st ref. 4s	1955	M—N	81	5.12
Balt. & Ohio refund & gen. 5s, Series A	1995	J—D	90¼	5.55
Chic., Mil. & St. Paul gen. & ref. Series A 4½s	2014	A—O	75	5.90
Balt. & Ohio, 20-yr. conv. 4½s	1933	M—S	82¾	6.20
Chic., Mil. & St. Paul conv. 4½s	1932	J—D	82	6.35

R. R. BONDS NOT LEGAL FOR N. Y. SAVINGS BANKS

Reading Co. gen. g. 4s	1997	J—J	88¾	4.55%
Chic. & Nor. West. general g. 3½s	1987	M—N	76	4.70
Wabash 1st gold 5s	1939	M—N	99	5.05
N. Y. Central & H. R. R. R. West Shore 1st 4s guar.	2361	J—J	80½	5.10
N. Y. Central & H. R. R. R. N. Y., Chic. & St. L. 1st g. 4s	1937	A—O	86	5.15
N. Y. Cent. — H. R. debenture g. 4s	1928	M—S	90	5.20
Southern 1st cons. g. 5s	1994	J—J	95	5.25
Sou. Pacific Co. 20-yr. conv. 5s	1934	J—D	96½	5.30
Atl. Coast L.—L. & N. coll. g. 4s	1952	M—N	78	5.40
Gt. Nor. C. B. & Q. coll. 4s	1921	J—J	95	5.40
Virginian 1st 5s Series A	1962	M—N	92¼	5.45
Hocking Valley 1st cons. g. 4½s	1999	J—J	82	5.50
Atlantic Coast L. gen. unified 4½s	1964	J—D	82½	5.60
Del. & Hud. 20-yr. conv. 5s	1935	A—O	93½	5.60
Sou. Pacific Co. g. 4s (Cent. Pac. coll.)	1949	J—D	76	5.60
Balt. & Ohio Southw. Div. 1st g. 3½s	1925	J—J	86	5.65
Missouri Pacific (reorg. Co.) 1st & refunding 5s. (w. i.)	1965		89	5.70
N. Y. Cent. & H. R. debenture g. 4s	1934	M—N	81	5.75
Seaboard Air Line g. 4s stamped	1950	A—O	73½	5.80
Chesa. & Ohio gen. g. 4½s	1992	M—S	76½	6.15
N. Y. Cent. R. R. conv. deb. 6s	1935	M—N	97½	6.20
Pere Marquette 1st Series A 5s	1956		83	6.20
Sou. Pacific Co. 20-yr. conv. 4s	1929	M—S	81¾	6.20
Western Pac. 1st Series A	1946	M—S	84	6.20
Chesa. & Ohio 30-yr. conv. sec. 5s	1946	A—O	83	6.25
Kan. City Sou. ref. & imp. 5s	1950	J—J	81	6.35
Missouri Pac. (reorg Co.) 1st & ref. 5s (w. i.)	1923		93½	6.35
Chic. Great West. 1st 4s	1959	M—S	64½	6.50
Southern, develop. & gen. 4s Series A	1956	A—O	63¾	6.55
Denv. & R. Gr. 1st cons. g. 4s	1936	J—J	70	6.80
N. Y., N. H. & H. conv. deb. 6s	1948	J—J	86	7.10
St. Louis & San Fran. (reorg. Co.) prior lien Series A 4s	1950	J—J	59	7.10
Chic., Rock Isl. & Pac. ref. g. 4s	1934	A—O	67½	7.25
Chesa. & Ohio 20-yr. conv. 4½s	1930	F—A	75½	7.50

PUBLIC UTILITY BONDS

Consol. Gas. conv. deb. 6s	1920	Q—F	105½	4.00%
Detroit Edison 1st coll. tr. 5s	1933	J—J	99⅝	5.00
N. Y. Telephone 1st and gen. s. f. 4½s	1939	M—N	92¾	5.05
Am. Tel. & Tel. 30-yr. temp. coll. tr. 5s	1946	J—D	97½	5.20
Pac. Tel. & Tel. 1st 5s	1937	J—J	94½	5.45
Am. Tel. & Tel. coll. tr. 4s	1929	J—J	86¼	5.55
Interboro Rap. Tran. 1st 5s	1966	J—J	87	5.80
Pacific G. & E. gen. & ref. 5s	1942	J—J	83¾	6.30
Third Ave. 1st ref. 4s	1960	J—J	64	6.40

INDUSTRIAL BONDS

Gen. Electric debenture 5s	1952	M—S	101½	4.90%
U. S. Steel Corp. s. f. 10-60-yr. 5s	1963	M—N	102	4.90
Indiana Steel 1st 5s	1952	M—N	100	5.00
National Tube 1st 5s	1952	M—N	99⅝	5.00
Repub. I. & S. 10-30-yr. 5s. s. f.	1940	A—O	98	5.15
Armour & Co., 1st real est. 4½s	1939	J—D	90	5.25
Cent. Leather 20-yr. g. 5s	1925	A—O	98	5.30
Lackaw. Steel 1st cons. 5s Series A	1950	M—S	95	5.30
Am. Sm. & R. 1st 30-yr. 5s Series A	1947	A—O	92	5.50
Ill. Steel deb. 4½s	1940	A—O	84½	5.75
Wilson & Co. 1st 25-yr. s. f. 6s	1941	A—O	98¾	6.25
U. S. Rubber 1st & ref. 5s Series A	1947	J—J	82⅝	6.30
Int. Mercan. Marine s. f. 6s	1941	A—O	91	6.75

Bond Inquiries

Switch from a Speculative Bond to S. P. Convertibles

T. L. R., Pittsfield, Mass.—Columbia Gas & Electric Debentures 5s must be regarded as speculative because their market price is directly responsive to earnings. While current earnings show an ample margin over interest requirements, this company is heavily over-capitalized, so that any adverse turn in its earnings situation would almost immediately jeopardize these bonds. They are not safe to hold. You can get out now with but little loss, and put the proceeds into some such security as Southern Pacific Convertible 5s. They are convertible into stock at par until June 1, 1924, and are the most attractive convertible of this road. They are an exceptionally well secured bond of a road which has a bright future.

Am. Writing Paper Bonds Highly Speculative

H. L. S., Louisville, Ky.—American Writing Paper 1st mortgage sinking funds gold 5s due July 1, 1919, after failing for three years to earn the interest and sinking fund requirements, earned 3.74 times the interest in the year ended Dec. 31, 1916. In that year the company greatly improved its financial position with an increase in total current assets to $8,283,786, as compared with $6,220,562 in the previous year, as of Dec. 31, while net working capital was increased to $8,280,059 against $5,816,675. The company was able to accomplish such a showing only under extraordinary conditions of prosperity for the paper industry. Starting 1916 with large supplies of raw materials, the company was in a particularly advantageous position to extract a wide margin of profit from its manufactured products by the simple expedient of raising prices. Still, there is no assurance that the company will be in a position to redeem these bonds at maturity, July 1, 1919. The company is not as likely to have as prosperous a year in 1917 as it did in 1916 and if the war comes to an end before another year is up, there may be quite a decided change for the worse in the affairs of the company. Although, it must be admitted that the company is in a stronger position now than ever before, it is certainly not without significance that in the last ten years the highest margin ever earned over interest charges and sinking fund requirements are 50% in 1909. In 1910, the charges were earned only 1.2; in 1911, 1.3; in 1913, 1.3, while as before stated, in the following three years deficits were shown. While the bonds have certain speculative possibilities we can in nowise regard them as a conservative bank investment.

Excellent Standing of Adams Express Coll. Trusts

H. T. F., Wheeling, W. Va.—Adams Express Collateral Trust Gold 4s stand upon a strong investment plane as they are not only protected by the deposit of standard securities fully equalling the face value of the issue, but the earning capacity of the Adams Express Company has for many years been sufficient to guarantee a good margin of safety.

A Business Man's Bond, of Southern Ry.

J. J. N., Bangor, Me.—Southern Railway Development and General Mortgage Gold 4s due April 1, 1956, by direct obligation of the Southern Railway Co. and secured by a direct lien on 3,880 miles of road and appurtenances, by collateral lien on 1,174 miles, by pledge of lease hold interests on 1,813 miles on securities, equipment, etc., and on any other property of the company hereafter acquired with the proceeds of the bonds. The bonds are authorized to the amount of $200,000,000; outstanding $61,333,000; in company's treasury, $199,000; pledged to secure 5% notes, due 1919, $43,500,000; and reserved for additions and betterments, to retire equipment obligations and certain prior liens for which consolidated 5s are now reserved, to acquire securities, etc., $94,968,000.

Since this large issue of bonds is secured on practically the entire Southern Railway system, although subject to many underlying liens on the bulk of the mileage, it appears to be fairly well protected. While not to be regarded as on a high investment plane, the continued development of traffic on the system should contribute as an improving strength to the bonds. A fairly good margin of safety has recently been shown and the indications are that it will be maintained during coming years. We can recommend the bonds for a business man to hold to maturity although we must say that we believe better bargains will be obtainable later.

Industrial and Rail Bonds of Merit

C. E. L., Baltimore, Md.—Virginia Carolina Chemical 5s stand upon the best investment plane as an industrial security. Not only is the property covered by the mortgage of very great value, but the margin of safety has continuously been a very high one. We do not hesitate to recommend these bonds for permanent investment with the qualification that they can probably be purchased somewhat lower later on if the war continues and the pressure of government financing is again felt by the investment market.

Colorado Southern 1st 4s are secured by direct 1st mortgage on the main line of the Colorado and Southern system and further by deposits of valuable collateral. Thus, the issue is on a strong investment plane. The earnings during the past ten years have given the bonds a wide margin of safety and therefore the issue is entitled to a strong investment rating. In fact it compares favorably with the highest grade railroad bonds and under that aspect we do not hesitate to recommend it.

PUBLIC UTILITIES

Ups and Downs of Third Avenue

New Problems of the Traction Companies—Effects of Strike—High Costs—Outlook for the Future

By A. U. ROSENTHAL

WHEN we drop a nickel in the slot we do not worry as to just how much of that nickel goes into our testy conductor's salary; how much is used in power; in oil; in repairs, or in satisfying the Hohenzollerns of American business, the labor unions. We are not disturbed by the fact that crude oil prices advance 150 per cent.; steel rails sell at "breathless" dollars per ton; coal doubles in value and then cannot be obtained; or because the actual value of $1 worth of commodities is about thirty cents, and therefore wages must be increased in proportion. Oh no! Nickels were made for street cars and street cars were made for nickels.

But there are a group of people who should worry and are worrying and they are the stockholders. The poor stockholders! They only get the worst of it no matter what happens. When their company is in the depths of adversity they sell their stock. Suddenly they discover that a dividend is to be paid and they must pay $25 per share more to replace their holdings. According to schedule the dividend is passed and they are landed high and dry again for another few years.

This is just what happened to Third avenue. From the time of its inception Third avenue never paid a dividend on its capital stock. In 1916, certain interests got extremely jealous of the "war babies," and many other "babies," whose spectacular rises were attracting the attention of the whole country, and decided that such an opportunity for exploitation was not to be overlooked. They concealed their jealousy admirably until the stock was safely lodged in their hands and then the fun began. Third avenue declared a dividend. "The company was in the strongest financial condition in its history." Earnings were running at remarkable figures. The growth of New York in general and Third avenue in particular was depicted in glowing terms, *and the stock was quietly unloaded*. No more stock—no more dividends. After a year of exuberance nothing more is heard and another page of stock market history is written.

Not that a strike could have been foreseen, nor that traffic would become congested, nor that materials would soar to prohibitive heights; but Third avenue never was worth even 50 much less 68 on its record of earning power, even though a 4 per cent. dividend had been declared.

The above probably interests us only as a post mortem, but Third avenue is not dead yet. In fact while it is seemingly groveling around in the depths of despair indications are pointing to better things. At any rate, stockholders are entitled to know how they stand and what they can expect for their property in the near future. Is it better to sell now and get into something else or is it more advisable to "average up" here with a view of getting out later if things take a turn for the better?

The "Why" of Third Avenue

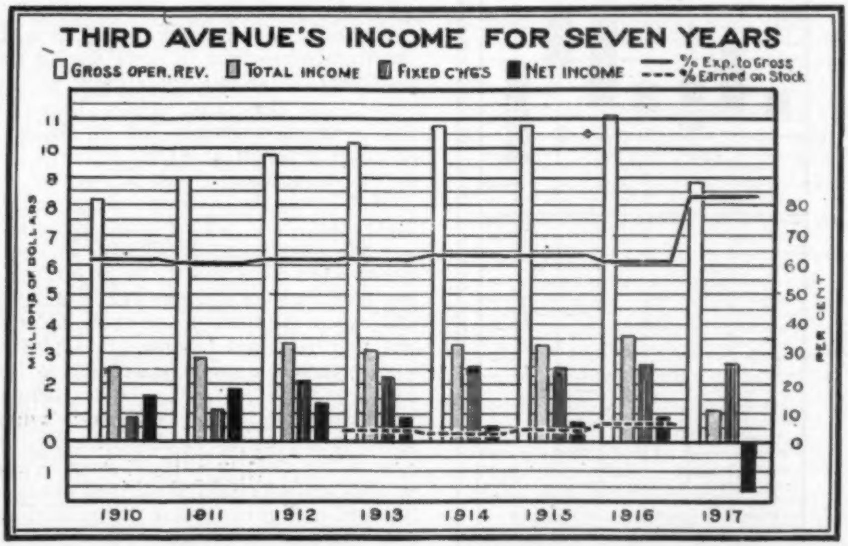
Before the present company came into existence the system was operated by F. W. Whitridge, who was appointed receiver in a suit instituted by the Central Trust Co. in 1908. The old Third Avenue Railroad Co. defaulted in the interest due January 1,

1908. In May, 1909, the subsidiary companies followed suit and after a decree of foreclosure, receivers were appointed for them. On March, 1910, the property of the old Third Avenue Railroad Co. was sold at foreclosure and bid in by a reorganization committee, who submitted a plan of reorganization a few months before. The Third Avenue's troubles began then and there, the Public Service Commission refused to authorize the issue of the securities provided in the plan of reorganization and it was not until the Commission was overruled by all the courts up to the Court of Appeals of New York that they granted an order approving of the issues, so that it was not until almost two years later before Third Avenue began operations.

The present company, however, was incorporated in April, 1910. Since the company began operations it has applied for franchises through several suburban points. These lines will be very expensive to build now, but if New York continues to grow at its present rate it will not be very long before they can be operated at a profit. One of the franchises covers a road from Manhattan street to 169th street, and another for the Pelham Park and City Island Railway Co., to connect the New York lines with Mt. Vernon. The system as a whole is quite extensive and its best feature is that it does not compete extensively with the subway or elevated lines.

The total mileage of the whole system, including the subsidiary companies, is 367½ miles. Its important lines comprise the Third Avenue Railway Co. proper, the Forty-second street, Manhattanville and St. Nicholas Railway Co., the Dry Dock and East Broadway and the Battery Railroad Co., the Belt Line Railway Corp., the Union Railway Co. of New York City, the Yonkers Railway Co., the Westchester Electric Railroad Co., and the Bronx Traction Co.

GRAPHIC I

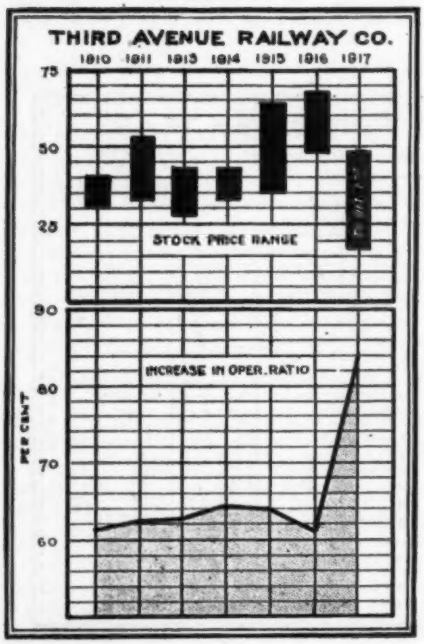


While Third Avenue, during its receivership and after it emerged, never made such a poor showing as for the fiscal year ended June 30, 1917, the company never showed signs of becoming a Cities Service or a Bethlehem Steel. During the properties' operation by the reorganization committee, a net income of $1,627,640 in 1910 $1,840,395 in 1911 and $1,391,256 was shown. (These income accounts were

those submitted to the Public Service Commission and do not apply to the company as it now stands because the Commission had not yet approved of the issuance of the securities.

For the first year reported under the present regime a net of $916,956 was reported, equivalent to 4.25 per cent. on the $16,590,000 capital stock. In 1914 and 1915 only 3.78 per cent. and 4.19 per cent. respectively was returned to net. In 1916, the banner year, the year in which the directors thought sufficient had been earned to pay a dividend of 4 per cent., only 5.98 per cent. was earned on the stock.

GRAPHIC II



What there was in these earnings to become enthused about is certainly an enigma, especially when nearly every other company in the country, not excluding many tractions and the Public Utilities, were returning the largest earnings in their histories.

An interesting feature of the company's reports showing the trend from as far back as 1910, toward higher operating costs is shown in the rise in gross and a corresponding drop in net. In 1910, gross operating revenues were $8,299,347 and net income amounted to $1,627,640. In 1913, gross revenues were nearly $2,000,000 higher or $10,117,847 and net dropped to $916,958. That is not all, where fixed charges were only $963,654 in 1910, in 1913 they had already mounted to $2,195,227 and have steadily continued their upward course with about $500,000 added up to 1917. (See Graphic II.)

The Strike and High Costs

Third Avenue would probably have succumbed to high costs last year, strike or no strike. There is no doubt, however, that the unfortunate tie-up last year plunged the company perpendicularly into the abyss.

The effect of the strike, coupled with the tremendous rise in costs during the last year, is shown effectively in the report for the year ending June 30, 1917. Gross revenues fell off $2,163,721 and a deficit of $1,622,336 was returned, compared with a surplus of $991,073 for the corresponding period last year. The actual gross revenues for the year were $8,972,649, as compared with $11,136,370. It is interesting to note that the gross revenues for 1917 were $700,000 more than in 1910, yet in 1910 a net income of $1,627,640 was returned against a deficit for the last year of $1,622,326. These changes are brought out more strikingly when it is noted that the total income in 1910 was $2,591,294; in 1916, $3,637,924 and in 1917 only $1,055,283. Fixed charges showed a slight increase, being $2,677,609, against $2,646,851 for 1916, the highest in any year. The surprising part of the 1917 report is that not only transportation rates showed a falling off but revenues from advertising, rents and sales of power declined. (See Graphic I.)

The whole trouble may be summed up in the sentence that operating expenses showed an increase of $479,646, although the company skimped and scraped, thereby showing a decline in the items of maintenance of way, depreciation, etc. These savings were easily offset by increased charges

for maintenance of equipment, power, supply, injury to persons and property and general and miscellaneous expenses. The outlay for injuries increased $203,607 and the item of general expenses, $474,237.

The strike not only had its bad effect while in progress, but as a result, much traffic was diverted to the elevated and subway lines and in the final analysis much of this traffic must be accounted as lost forever. How severe the rise in operating costs affected the company is shown by the big jump in ratio of operating expenses to gross revenues. A percentage of 81.48, against 61.13, or an increase of 20.35 per cent. over the previous fiscal year was the result. Earnings as far back as January of this year returned to their normal amounts, but the rise in costs had its depressing effect up until the end of the year.

The question, of course, for stockholders to consider is whether or not Third Avenue will be able in time to write off the bad effects of its strike and show enough earnings to nullify the present high operating costs. Earnings for the two months, July and August, showed a gross of $1,952,090, against $1,619,967 for the 1916-1917 fiscal year. Net after taxes was over $150,000 higher than for the previous fiscal year and the surplus after charges amounted to $81,070, as against a deficit in 1916-1917 year of $44,397. The rates for the new fiscal year show that Third Avenue has started as well as could be expected, and while the question of costs is still there, there can be little doubt that the present year will be better than last.

Position of Third Avenue Stock

How then are we to regard Third Avenue stock? Selling at approximately the lowest price in its history and with earnings on the mend it would seem at first glance that there is only one conclusion to be drawn and that is to look for a gradual improvement in the price of the stock.

There are many varying factors to consider, however. Even disregarding such abnormalities as strikes, the position of Tractions in general and Third Avenue in particular is not one to inspire much enthusiasm. In the first place, the well-known factors of high costs without any visible means of a rise in the price of the product, viz.: Transportation, put them all in an unpromising position. Nearly every other producer has been allowed to adjust his schedule of prices to the present commodity conditions, but it is very unlikely that such a grant will be allowed the Public Service lines.

Unfavorable Factors

Not only that but the Third Avenue is up against a combination of other factors which work toward its detriment. The rapid extension of the subway and "L" lines are rapidly pushing the slower companies out of district after district. The street car lines will always get a certain amount of special business, but there can be no doubt that this competition hits hard.

While Third Avenue was never entitled to sell as high as 68 and probably never will be unless something entirely unforeseen enters into the situation, its present price discounts many of the nearby unfavorable factors in the situation and for a short range view it is advisable that holders of the stock retain it for the present and await developments in the next few months. On its earning power and future Third Avenue is worth very little more than it is presently selling for, but these conditions are not all that go into making a market price for the stock.

From its action lately it would seem that certain strong interests have a firm grip on the issue and therefore it is inadvisable to liquidate now. Should an upward move be engineered those who are landed with the stock could take advantage of the opportunity to liquidate their holdings and switch into something with better prospects for the long pull.

Public Utilities Notes

Brooklyn Rapid Transit. — The New York First District Public Service Commission has approved the plan submitted on Sept. 6, for 250 new surface cars to be purchased by the various operating trolley companies in the Brooklyn Rapid Transit system and at the same time approved an opinion by Commissioner Whitney in which he reviewed the history of the matter from March 10, 1917, the date when the company was ordered to submit plans.

Commonwealth Light & Power.—Has sold to New York bankers a new issue of $800,000 two-year 6% secured gold notes. They are offered at 98⅛ and interest, yielding 7%. The notes are dated Sept. 1, 1917, and are callable on or before Sept. 1, 1918, all or part, upon four weeks' notice, at 101 and interest, thereafter until maturity at 100½ and interest.

American Water Works.—Reports net income for the year ended June 30, 1917, of $648,235, equivalent to $12.96 a share earned on the $5,000,000 1st pfd. stock, compared with $10.18 a share earned the previous year.

Massachusetts Gas.—Combined net earnings in August, 1917, available for dividends of subsidiary companies, exclusive of munitions profits for the month, were $444,736, an increase of $238,077, or 115.2%.

Montana Power.—A Butte, Mont., dispatch states that this company is rapidly developing into the most important industrial corporation in Montana. With the completion of Holter hydro-electric plant, 30 miles north of Helena, the company has added another large unit to its power facilities. Construction has been completed, but generation of power will not begin until about Nov. 1.

N. Y. Consolidated R. R.—The New York First District Public Service Commission, Sept. 26, 1917, issued a statement of passenger traffic on the lines operated by the New York Consolidated R. R. for the year ended June 30, 1917. Number of fares collected totaled 226,515,512, an increase of 19,355,321. Daily average was 666,222, against 609,293 in the previous year, and 536,789 in the 1915 year.

Pacific Tel. & Tel.—Has filed with the California Railroad Commission application for authority to exercise the options given it by the United States Long Distance Co. to purchase before Oct. 13, 1917, trust certificates at $60 a share, representing pfd. capital stock of the latter and for authority to purchase upon the same terms trust certificates representing the remainder, $52,000, of the pfd. capital stock.

Philadelphia Rapid Transit. — Operating expenses were reduced by this company in August, with the result that again a liberal gain in net earnings and surplus was shown. The ratio of expenses to gross receipts was 57.6%, whereas in July it was 58.7%. Gross business was almost identical in each month; that is, $2,436,680 in August and $2,437,393 in July. Operating expenses were $1,404,966 and $1,429,494. The difference in the latter item was enough to make by comparison with results a year previously a much larger increase in profits in August than in July.

Southern Cal. Edison.—July earnings reflected results of operation under the new contract with Los Angeles, whereby the company became a wholesaler. Gross revenue for 1917 is affected by the sale of gas properties in June, 1916, and change to a wholesale basis in Los Angeles City from May, 1917. Actual increase in electric output was 7% which is reflected in the surplus. Consolidation of the Southern California Edison Co. with the Pacific Light & Power Corp., a former subsidiary, has been effected.

Twin City Rapid Transit.—Following a conference between Pres. Horace Lowry and employes, changes were announced that are satisfactory to the men, and there is no danger of trouble. There had been rumors of an impending strike.

United Fuel Gas.—The largest known natural gas well in West Virginia had been brought in by the United Fuel Gas Co., a subsidiary of the Columbia Gas & Electric Co. It is flowing 25,000,000 cubic feet of gas a day. The well was brought in above the oil-bearing sands and has a rock pressure of 450 lbs. to the square inch. This heavy natural pressure, according to officials, indicates the presence of large quantities of gas.

The well was brought in at about the centre of a tract of 13,000 acres, proving up this tract, which is the largest single tract in the West Virginia fields.

It is so large that officials of the company feel assured that it will amply provide for all natural gas demands for the ensuing two years, and that it will be unnecessary for the company to do any drilling of new wells in 1918.

This is looked upon as favorable, as it will materially cut down operating expenses, due to the fact that drilling operations cost more than at any time in the history of the oil and gas industry.

United Light & Power.—New preliminary surveys are being made for a dam site for another power project in San Gabriel Canyon by the United Light & Power Co., of Los Angeles. It is proposed to build a dam at a point near Prairie Fork, impounding sufficient water for a continuous flow of 2,000 in. From there the water will be carried by tunnel 10 miles to the proposed power house at the mouth of the Graveyard Canyon. The proposed plant will develop 6,000 k. w. and will years previously by the Pacific Light & Power Co. and found impracticable by engineers and dropped.

Public Utility Inquiries

American Telephone as an Investment

C. F. R., Wilmington, Del.—American Telephone & Telegraph stock may be purchased as an investment at this time with the expectation that the 8% dividend will be maintained. This stock has suffered a heavy decline during the past year or two in sympathy with other high grade investment issues of long standing, which necessarily had to adjust their market prices so that the yield would correspond more nearly with the higher cost of capital in general. This adjustment may have to go still further, and you should be prepared to hold through whatever further decline might possibly come. In particular, this company has suffered along with the railroads from regulation of income where costs have been uncontrollable. Government control is a possibility but apparently not one to become unduly alarmed about now.

Federal Light & Traction Pfd. Dividends Near

O. H. R., Cleveland.—Federal Light & Traction preferred has held well during the past few months. The action of the stock has indicated that had it not been for generally unfavorable market conditions, the price would have advanced materially in response to the sustained improvement in earnings which the company has been showing. According to the latest reported earnings for the five months ending with May 31, surplus after fixed charges increased about 40% or $40,000. On a basis of the figures given the indicated earnings on the preferred stock for the five months were equal to 5.71% or at the annual rate of 13.70% against actual earnings for the full 1916 year of 6.36%. This showing indicates that the preferred is now approaching the time when dividend resumption will be justified and we do not think you should dispose of it under the conditions. Of course you might get into something else and make up your loss but ordinarily it is rather poor policy to carry a stock through a heavy decline and sell it just at the time that it has probably discounted the worst.

Causes of Decline in North American

H. W. Clinton, Iowa.—North American has declined out of sympathy with the troubles of the United Railways Company of St. Louis which it controls. The latter is in process of reorganization. The stock has not only been affected in a sentimental way by the very discouraging situation in United Railways, but it has also succumbed to the influence of generally unfavorable market conditions, particularly with respect to public utilities stocks. We think the stock is selling too low. Of course the company will have to draw to a larger extent than in previous years, on earnings of subsidiary companies, to maintain its own dividends; but we are inclined to the opinion that it can safely do that or at least that it can draw on its own surplus and that it will pull through the present unfavorable period without cutting the 5% dividend. Even if the dividend were reduced to 4% the present price of the stock could be regarded as low enough. Admittedly, there is a certain amount of speculative risk attached to holding the stock but if you have bought it at a much higher price we think you would be unwarranted in selling now and we suggest therefore that you keep your stock and await developments.

It is a difficult matter, of course, for us to give you any more than a general idea of the situation in North American Company in a short letter. This company, as you doubtless know, is a holding concern with many subsidiaries and sub-subsidiaries giving it a very complicated structure. In order to fairly understand the position of the company to your own satisfaction you should get one of our Special Analytical Service Bureau reports. The Analytical Service Bureau at a special charge will undertake to give you a comprehensive analysis of the company, going into full detail of its finances and operations and thoroughly dissecting every angle of the situation.

Favorable Status of Northern States Power

M. A. R., Greeley, Colo.—Generally speaking, we do not consider this an opportune time for the purchase of stocks for permanent investment. Northern States Power common, however, is an attractive purchase for one who can tie up money in it with the idea of disregarding possible temporary declines and holding for a long pull. This company is largely a hydro-electric enterprise and is not affected to the degree that other public utility companies have been by high operating costs, chiefly due to extraordinarily high fuel costs. We consider the dividend reasonably secure.

Tenn. Ry. Lt. & Pr.'s Outlook

R. T. P., Toledo, Ohio—Tennessee Railway Light & Power is not in a position to encourage the hope that dividends will be paid any time in the near future. We think this stock will be established on a higher basis in the long run, but just now the company needs to do considerable improvement work and the necessity for large expenditures on new plants, etc., makes it probable that all surplus earnings will be applied to such purposes. While the company showed a very brilliant earning statement for the year ended Dec. 31, 1916, the results since have not been as favorable owing to the increased costs of maintenance and operation resulting from higher material and labor costs. In short, the present situation and the immediate future is not promising to an advance of any substantial proportions in the stock.

MINING AND OIL

Developments at Magma

Prospects of Important Showings at Lower Levels—Earnings and Quick Assets—The Outlook for This Stock

By JAMES SPEED

THERE is one important factor that stands out in connection with Magma Copper and that is that its market position is predicated on prospects rather than performances. Magma is a mine of the future and just how much of a mine the future alone can answer. There are those who firmly believe, and not without excellent foundation, that Magma is not only one of the great mines of this country but of the world. But the purchaser of Magma should bear in mind that he is not investing so much as buying an opportunity to participate in the results of the company's future developments. At 50 a share Magma yields on its present dividend rate of $2 per annum only 4 per cent., which is conclusive evidence that the present market price is the reflection of Magma's speculative possibilities and not its investment status.

The remarkable thing and the most encouraging about this property is that to date it has shown no signs of weakening. Since this publication undertook an investigation of Magma more than a year ago its developments in the lower levels of the mine have been fully up to all reasonable expectations. Its managers have had to bear their share of disappointments but the net result has substantiated earlier hopes and warrants further high expectations.

Details of Developments

When the MAGAZINE OF WALL STREET commissioned Mr. Thomas Lewis to travel more than a thousand miles and make a first-hand examination it was more with the idea of confirming in a general way the reports received here in the East than with the expectation that he would make new and startling discoveries.

With the purpose of giving to our readers a more specific and detailed report of Magma's recent development the writer called at the company's offices. The following remarks are the writer's summary of the information given.

The sketch which accompanies this article is a section through the fissure, drawn approximately to scale.

The working shaft at the left is used for hoisting ore but operations will be greatly accelerated when the new proposed shaft (extreme right) and upon which work has been begun, is completed. It will be noted that the new shaft lies considerably to the right of the old or original shaft for the purpose of catching the bend of "dip" in ore body at below the 2,200 foot level. Sinking a shaft of this sort is an expensive proposition and shows what confidence the management has that the ore bodies persist to levels much lower than have yet been explored.

The Magma "Fissure"

Magma's main ore body as far as developed lies in what is known as a true fissure. Imagine if you can, two enormous strata or layers of rock standing on edge say at an angle of 30 degrees. Then imagine the right hand section, stirred by some tremendous movement of the earth thousands of years ago, dropping away and down from the left hand series and forming a rift or fissure, which in time becomes filled with porphyry containing mineral bearing material. This fissure extends for an unknown distance longitudinally, and no one knows how far down into the bowels

of the earth. Regard the metal bearing material as Magma's main orebody and you have a rough idea of the Magma formation. Through seepage and filtration the upper layers became oxidized and the copper was deposited in the lower strata, forming rich ore shutes.

The management has followed the policy of mining the ore as fast as developed. Practically all of the ore mined to date has come from above the 1,500 foot level where there is a mineral deposit thirty-four feet wide averaging 10 per cent. copper. The recent important "strike" on the 1,600 foot level disclosed a thirty foot ore body of 10 per cent copper of which twenty-two feet averaged 13 per cent.

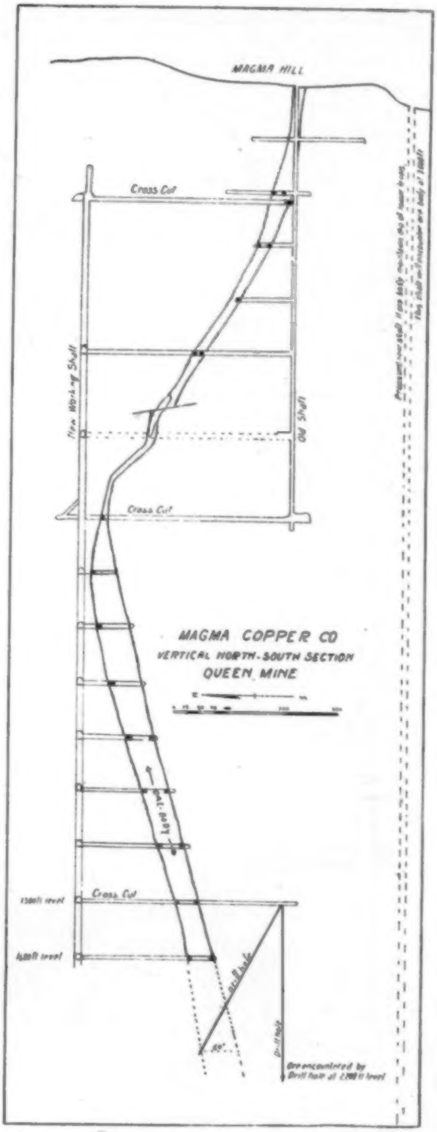
Expectations

So much of what is actually proved in connection with the ore bodies. The important matter and upon which Magma's future depends is what the levels below those already explored will show. In this respect one is fortunately able to build on more than mere hopes. Competent engineers who have examined the property and geological experts who have made a careful study of the Magma ore-body express the opinion that the ore below the 1,200 foot level is primary in character and that there is every reason to believe that it extends to considerable depths.

It will be noted that on the 1,500 foot level between the ore body and the proposed new shaft, two drill holes have been sunk. The left hand diamond drill hole cut the ore body at an approximate depth of 1,700 feet, and indicates 40 to 60 feet of ore averaging from 4 per cent. to 6 per cent. copper. The right hand drill was dropped nearly to the 2,200 foot level where the hole, owing to the soft character of the ground, was lost, but copper ore in the form of chalcopyrite was disclosed.

Summary

These developments confirm the theory of Magma's ore-body; namely, that it persists to depth, that it widens at depth and contains commercial ore.



Sketch Showing Magma Copper's Present Main Workings Together with Proposed Shaft at Extreme Right, Planned to Cut the "Dip" in the Ore Body Near the 3,600-Foot Level.

Further developments must be awaited before it can be determined whether the ore at depth will prove as rich or richer than that already disclosed. The proposed cross-cut tunnels on the 1,700 and 1,800 foot levels should yield important data.

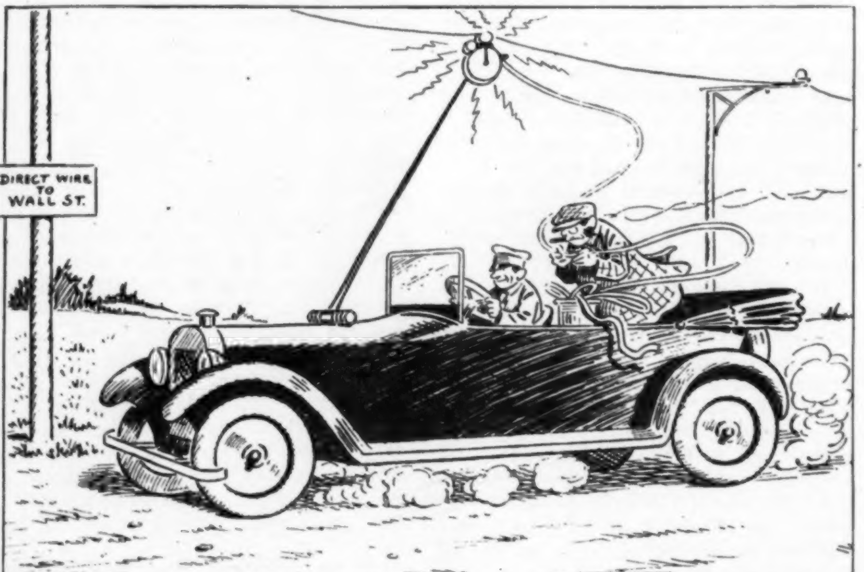
The geological formation of the Magma ore-body and the work done to date has confirmed the theory that the Magma ore chute extends in a widening fissure to considerable depths. If the proposed tunnels and shafts confirm expectations and indications in regard to the ore at the lower levels, Magma's life will be assured for many years to come and its market value should enhance considerably above present quotations.

The management believes that in the same fissure to the eastward there is another important copper deposit. Considerable work looking towards its discovery has been done and while some copper and gold and silver values have been disclosed, in drill cores, it is too early to state that pay ore has been proven to exist. Exploration work, however, is being pushed and important discoveries are well within the realm of probability.

For the rest Magma has $1,500,000 in cash assets or approximately $6 per share. The property is earning, at the rate of $6 per annum.

Its position is well summarized in the remarks of one who is thoroughly acquainted with Magma and who said to the writer:

"The buyer of Magma should not delude himself into the belief that he is buying a porphyry copper with large proven ore reserves. Magma is distinctly a mining speculation but I regard it as one of the best speculations that I have seen in that line."



The Lamb.

Why Not Equip Our State Roads with a System Like This, So That Our Brokers May Combine Business with Pleasure?

Mining Notes

Anaconda. — Sufficient men reported for work at Washoe and Great Falls smelters to run plants. Extent of operations largely depend on amount of ore shipped from Butte. Indications favor early return to normal working force.

Alaska Juneau.—Ore running through mill now averages $1.24 a ton, compared with 88c. in July. August was a record for daily tonnage handled.

American Zinc.—Is stated to have net quick assets of $4,000,000, or around $1,000,000 above the selling price of the 193,000 shares of common stock outstanding.

Butte & Superior.—Reports an output of 11,000,000 lbs. of zinc and 210,000 ozs. of silver, representing a 95% recovery from 35,500 tons of ore. Minerals Separation Co. has suspended its injunction during the war. Butte & Superior is to furnish a $2,500,000 bond, and deposit monthly milling profits with court.

Calumet & Hecla.—Is not exempted from the regulation 23½c. "Government copper price" by reason of its exceptional grade. All grades of copper were automatically swept into a common grouping in price-fixing, and Calumet's quality is a distinction which will not be favored in war times.

Chile Copper.—Operations make a pleasing contrast with those of other companies which have been handicapped by labor troubles. Chile shows a substantial increase in August, which was 8,306,000 lbs., compared with 2,000 lbs. in August, 1916. Figures for the 8 months ended August, 1917, are 59,325,110 lbs., against 26,318,385 in the corresponding period of 1916, an increase of 33,006,725 lbs. Were it not for the handicap imposed by exorbitant ocean freights, Chile would be one of the lowest cost producers in the two Americas.

Consolidated Coppermines.—Produced 1,100,000 lbs. of copper in August. September production is estimated at 1,500,000 lbs.

Consolidated Interstate-Callahan.—Passed regular quarterly dividend. The company, which ranks among the largest spelter producers, has been paying $1.50 quarterly.

Davis - Daly. — Broke into the Hibernian vein on the 400-ft. level, uncovering silver ore of undetermined extent and value.

Federal Mining.—August net profits of $216,430 compare with $259,729 in July, $276,533 in June (record high) and $53,277 for the first six months of 1917.

Granby Consolidated. — Net income $3,966,210 for year ended June 30, 1917, is $26.44 a share on $14,998,520 capital stock, compared with $25.46 a share the previous year.

Greene Cananea.—Attempts may soon be made to resume operations. Company was able to operate during all of 1916 and indications point to a repetition of this condition during 1917.

Hollinger.—A new ore body 65 feet wide, with values of $10.50 per ton, reported disclosed by development at 300 and 800 feet.

Inspiration.—Miners are returning to work, and production should be running at capacity within 60 days. Company reported in excellent financial condition, despite the labor troubles, and surplus reported $13,000,000.

Kerr Lake. — Reports surplus for year ended Aug. 31, 1917, $630,266, equivalent to $1.05 a share on 600,000 shares.

Magma Copper.—Stated cross-cut has progressed 13 feet; averages over 14% copper, 6 ounces silver, and $2 gold. Silver and good value is at rate of around $8 per ton.

Mammoth Copper.—Company's Mountain Copper and Balaklava mines have closed down, removing from production copper at the rate of 5,000,000 lbs. a month.

Miami. — Vice-President Channing, after meeting of directors, said: "On account of the strike which we had during August and September we thought it only fair to omit the extra dividend."

Minerals Separation.—Has consented to suspend injunction granted against Butte & Superior during the war. Latter furnishes a bond of $2,500,000 and deposits with court monthly profits from millings.

Mines of America.—Idle over three years, has taken up question of starting operations. Ore reserves Jan. 1, 1917, figuring silver at $1 and gold at $20, are approximately $7,250,000.

Nixon-Nevada.—The move in this stock followed reported attempts of William H. Butler of Tobacco Products Co. interests, to tie up stock under options extending to December. Mr. Butler's efforts have succeeded, it is said, in removing a large part of the floating supply.

North Butte.—Reports planning early resumption of operations. At the start one shaft will probably ensure monthly production of 1,500,000 pounds copper. Property idle since June.

Old Dominion.—Reports output for August 875,000 pounds of copper. Resumed operations with reduced force in July. In August, 1916, output was 3,600,000 pounds.

Silver King Coalition.—The quarterly dividend of 15 cents brings the 1917 dividends up to $562,500 and making the grand total $15,267,500.

Utah Copper.—August production totals 18,796,012 pounds of copper, compared with 18,127,154 in July and 19,909,097 in June. September tonnage is breaking records. Based on 23.50 cents over the rest of 1917, Utah should show earnings for the year of about $21,987,753 available for dividends, or $13.54 a share, after making provision for excess profits tax. Net profits for the current 12 months estimated at $32,489,800, or $20 a share (before excess profits deduction), against $24.09 a share for previous year.

Mining Inquiries

Attractive Low-Priced Silver Stock

G. A. S., Albany, N. Y.—Temiskaming Silver is in quite a favorable speculative position, due to several factors, among which are the high price of silver, the settlement of dissensions in the affairs of the company, and the technical position of the stock itself. There were opposing factors in the management of the Temiskaming Co. which were not in agreement with regard to its policies, but we understand that they have now come to a better understanding, and that all will work in harmony for the good of the company. The chance for higher prices lies in the possibility of the uncovering of further ore bodies, as it is claimed that the ore in sight a year ago has been exhausted, but we have our doubts on this subject.

The company has disbursed a total of $1,909,000 since its formation in 1906. It sold at 94c. in 1911, and has sold down from 81c. in 1916 and 61c. this year. We are of the opinion that the company will not maintain its present dividend of 3c. per share if only for the purpose of conserving its capital and purchasing new properties. The stock must no longer be regarded as a safe dividend paying proposition, its position being somewhat similar to Caledonia in this respect.

Copper Dividend Reductions Likely

M. A. R., Battle Creek, Mich.—We prefer Ray Consolidated to Nevada Consolidated, and as the latter already shows you a profit, we are going to advise you to sell it and take your profit. Both these coppers have shared in the general prosperity of all copper companies, and we are of the opinion that the bull market which culminated sometime ago discounted most of the favorable factors in the copper situation for the present, especially in the case of Nevada Consolidated, but in the case of Ray Consolidated, its improvement over the past two years more fully justifies its present price. Upon a comparison of the prices of both at the present market and the market course of both over the past three years, Ray Consolidated is in a better technical position to withstand any drastic decline in the market in the near future and is better entitled to sell up than in the case of Nevada.

We expect to see Ray Copper sell above the price you paid for it in the near future, and we advise you when you see a reasonable profit on your purchase, to sell it also, because all the copper stocks being in for a period of uncertainty, makes it risky to hold them. And we assume that you do not wish to take undue risks.

With few exceptions can the present dividends of the copper companies be regarded as reasonably secure. There are two factors entering into the situation, the one price, and the other taxation. On the basis of 23½c., the price fixed by the United States Government, the leading copper companies, including Anaconda, Miami, Utah, Kennecott, Inspiration, Chino, Ray Consolidated and Nevada Consolidated, should be able to cover their present dividends, including "extras," with a margin to spare. But when the element of taxation is taken into consideration, the story is an entirely different one. We refer you, for a discussion of this phase of the situation, to the OUTLOOK of the Sept. 29th issue of the MAGAZINE, page 848. We think that will give you all the details you desire.

Caution Advisable in Buying Resurrected Mining Stocks

T. R., Winthrop, Mass.—Silver King of Arizona is a revival of the old Silver King, a very famous mine some thirty years ago, when Magma was known as the Silver Queen, situated in Superior, Ariz. At depth the silver of this mine became exhausted and, as in the case of Magma, copper ore was reached, and it did not pay to mine copper in those days without railroad and smelter facilities. In the fall of last year, when the copper boom was at its height, this company was formed to clean up the old Silver King Mine, and continue prospecting the copper clearing ground with a view to opening up a copper mine. Whether the company will make good or not is anybody's guess, and at present the mine cannot be classed as anything but a prospect, with some uncertain speculative possibilities. We are not recommending purchases of this class of stock because the chances are all against the investor in an issue of this kind, where the remote chances of profit are offset by the still greater chances of total loss of investment.

The Magma "Shake Out"

D. A. I., Brooklyn, N. Y.—We still advise the purchase of Magma Copper, outright, for a long pull. Recent buying of the stock has apparently attracted too large an outside following and the decline which has occurred in the last few days is in the nature of a shake-out. Magma is intrinsically worth much above its present selling price, and we expect it to eventually show a large profit to those who purchase the stock around current levels, though there may be rather disconcerting and erratic fluctuations before the stock is finally established at a level in line with its intrinsic value. Such fluctuations you must be prepared to disregard if you buy the stock.

Tonopah Extension's Improved Outlook

F. A. H., Topeka, Kan.—Tonopah Extension is certainly selling at a low level, and is an attractive silver stock of considerable possibilities. The company occupies a premier position in the Tonopah field, and although speculative, is at its price one of the most attractive silver issues of that district. With silver selling at one dollar, this company should earn considerably more this year and add very much to the equities behind the stock. If you are in a position to hold the stock through temporary fluctuations we recommend its purchase at the current price.

Oil Notes

Anglo-American.—Reports for year ended Dec. 31, 1916, gross profits £1,122,979 and net £604,891. After dividends of 5s a share £104,891 was carried forward. Surplus and reserve accounts have increased by £224,469. Directors have under consideration a rearrangement of capital.

Continental Oil. — The increase in the authorized capitalization from $3,000,000 to $12,000,000 has aroused discussion. Its distribution was left to directors to act on. Company has no need for funds and a stock dividend is expected, the balance being used to finance the acquisition of stock of the United Oil Co. Profit and loss surplus, as of Dec. 31, 1915, was $2,716,704, about 90% on its $3,000,000 stock against $1,543,037 for 1915, or about 51%.

Cosden & Co.—Earnings for the first half of 1917 ran about $5,000,000 and increased earnings are anticipated for the last half of the year. It has been figured that $10,000,000 will be earned on common stock in 1917, after allowing $835,000 for interest on bonds and dividend on $3,500,000 preferred.

Empire Gas & Fuel.—Reports earnings for 12 months ended July 31, 1917, including subsidiaries. Gross $16,527,586, net after taxes $10,509,096, surplus after charges $9,493,299, compared with gross $8,713,426, net after taxes $5,341,419, surplus after charges $4,547,544, for the nine months ended Jan. 31, 1917.

General Petroleum. — Reports gross income for year ended June 30, 1917, $4,372,185. This sum represents actual cash available for interest, sinking fund and dividends. Deductions for depreciation and oil land exhaustion totaled $2,343,667. From this there must be deducted $369,004, profit and surplus at the beginning of the period. This deduction leaves a surplus of $2,110,341, or 15.64%, compared with quarter ended Sept. 30, 1917.

Glenrock Oil.—Has closed a transaction to take over 60% interest in leases on 3,000 acres of patented land in a new oil field half way between the Big Muddy and Luck. This gives Glenrock control of the field.

Gulf Pipe Line.—Has granted an increase of 20% in wages of employees, effective Oct. 1. Gulf Refining has granted a similar increase.

Kentucky Petroleum.—Pouch & Co. and Trippe & Co. say: "With production doubled by the end of the year, earnings should show in excess of $4 a share on outstanding stock. The company has recently acquired the Kentucky properties of the Cambrian Oil Co., located in the Furnace District of the Irvine field, and owns leases on 40,000 acres of oil lands in Kentucky."

Mexican Petroleum.—Has resumed regular 6% dividends on the common by declaring $1.50 a share for quarter ended Sept. 30. Payable Oct. 15 to stock of record Oct. 1. No dividends had been paid on the $48,000,000 common outstanding since August, 1913, when 1½% quarterly was paid. The 6% rate may have been disappointing to some speculators, but may be due to conservatism and to leave the way open for increases in future. Deliveries in July were about 1,500,000 barrels, in August around 1,350,000 and for first ten days of September averaged more than 56,000 barrels a day. The New Orleans refinery is taking 8,000 barrels of crude a day. About 40,000 barrels are being run through the Tampico topping plant daily, from which about 120,000 barrels of gasoline a month is being taken. Estimated gross proceeds from sales of this gasoline over $6,000,000 for this year.

Ohio Cities Gas. — Reported wells Nos. 108 and 111 in the Cabin Creek field shot on Friday last made 429 barrels and 202 barrels, respectively, the first 24 hours.

Osage-Hominy Oil. — Production is estimated to be in excess of 6,000 barrels daily.

Pan-American Petroleum.—Has declared an initial dividend of 7% per annum on its common stock for quarter ending Sept. 30.

Penn-Mex Fuel.—Reported that the company's largest well, with a potential production of about 70,000 barrels a day, had become clogged, owing to defective casing. Later advices from Tampico are that the obstruction has been cleared, and well is now flowing at the rate of about 40,000 barrels a day.

Sinclair Oil. — Consolidated income account year ended June 30, 1917, shows: Gross income $11,246,685, reserve for Federal income and excess profits tax $794,515, general expenses $308,364, interest on notes payable $242,177, interest on 10-year bonds $564,881, net income $9,336,747, depreciation $1,631,228, balance $7,705,519, dividends $3,888,211, surplus $3,817,308, total surplus $5,230,890. Balance of $7,705,519 available for dividends equals $7.70 a share on 1,000,000 shares.

Swan & Finch.—Announces the declaration of a dividend of 2½%, payable Nov. 1, 1917. This marks the resumption of dividends by the company and is the first dividend paid since March 31, 1913, when 5% was paid. It is generally believed that this places the company on an annual basis of 5%, although no announcement to that effect was made. The resumption of dividends by the Swan & Finch Co. is indicative of prosperity in the business of manufacturing and compounding lubricating oils, in which this company is engaged. It does a considerable export business and, in addition, a large part of the fish oil business of the United States is controlled by it.

Wayland Oil.—The oil production is close to 500 barrels daily. Income account for 1916 showed net available for the common of $173,704, or above 10%. Reported that the 1917 income has been at a rate above 20% on the common.

Oil Inquiries

Standard of New Jersey as a Long Pull

R. L. C., San Francisco, Cal.—At the time we were recommending the purchase of Standard Oil of New Jersey and other Standard Oil stocks, the situation and outlook was undoubtedly favorable. With the entrance of the United States into the war, however, there came a great change in the aspect of affairs affecting the outlook for these companies. Your criticism, if it may be called that, of our recommendations are unjust in that they do not take into consideration the fact that we changed our position very emphatically on Standard Oils and all oil stocks, and we have not been recommending them for the last six or eight months, except under certain reservations. The article which appeared sometime ago on Standard Oil of New Jersey outlined plainly the expectations under which the stock should be bought. We still believe that Standard Oil of New Jersey will eventually sell very much above any previous high level, but that does not mean that we fail to recognize the possibility of still lower prices for the stock. You may safely buy it if you have surplus cash, which you can afford to tie up with absolute disregard for temporarily unfavorable market fluctuations, also without regard to the small income return for the present. If you hold Standard Oil of New Jersey long enough, say for three or five years, you should realize a handsome profit.

Oil Stock Speculations

C. S. R., Niagara Falls, N. Y.—Regarding Northwest Oil and Allen Oil, we wish to make it perfectly clear to you that no low priced oil stock can be regarded as an "investment; they are, practically without exception, speculations, and this even applies to such stocks as Merritt Oil, Sinclair Oil, Cosden Oil, etc. We have been trying to indicate the possibilities for profits in purchasing these low priced oil stocks as speculations purely and see no reason to alter our opinion on them.

Both Northwest and Allen are now selling at a prospect valuation; and in purchasing them, you must regard them as such. We can only say that they are good prospects, honestly managed, and very likely to yield a good return by way of enhancement in value, upon money you may invest in them.

Cosden's Capital Expansion Excessive—Exchange Advisable

B. A. D., Philadelphia, Pa.—Cosden & Co., which took over Cosden Oil & Gas and Cosden & Co. (old company) and subsidiaries, is a substantial organization, but we are inclined to believe that the company has expanded its capital obligations out of proportion to its growth in earning power. After completion of the recent financing, whereby 635,000 shares were issued at $10 a share there will be outstanding about $16,000,000 common stock, $3,500,000 preferred stock, and approximately $11,500,000 6 per cent first mortgages. Less than one-half of the recent offering of 635,000 shares were subscribed for by stockholders, leaving the remainder to be taken by the underwriting syndicate. The oil industry has been enjoying a period of unprecedented prosperity, and we look to see substantial declines in earnings with the advent of less favorable conditions.

We hesitate to advise your taking such a heavy loss as this stock shows you, but we cannot encourage you to hope that you will "see daylight" on it within any reasonable length of time. It would probably be advantageous for you to exchange your stock for a security like Cresson Consolidated Gold Mining and Milling. This company has been a profitable producer since 1912, and has been paying dividends, the current rate being 10c. a share monthly and extras, the last extra having been 15c. paid in December. The company has a large cash reserve and claims over $4,000,000 profit in sight from ore blocked out. Recent developments have been quite favorable, it being reported that highly satisfactory progress is being made in new development work in the mine, and it looks as if this would result in the uncovering of new ore bodies which would add materially to the value of the stock. We regard it as an attractive, speculative, mining investment.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investors' Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) Write all inquiries on a *separate* sheet of paper, which should bear the writer's name and address.

(3) Enclose stamp or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we shall be pleased to submit an estimate of the special charge for such work.

UNLISTED SECURITIES

Wright-Martin's Govt. Order

Profits It Should Show—Status of Operations—Position of Preferred and Common

By BARNARD POWERS

WRIGHT-MARTIN Aircraft Corporation's $28,000,000 order from the United States Government must be regarded as a signal triumph for those who have backed the company with their faith and capital since it commenced its harassed career upwards of two years ago. For it vindicates the two fundamental theories on which the company was organized and developed, namely, (1) that the aeroplane industry is one of great possibilities, and (2) that the company which succeeded in developing a "fighting" motor which could hold its own with the military motors as developed on the battle fronts of Europe, would be the company most likely to succeed. That the first premise was sound goes without saying and that the second was no less sound is now in the process of demonstration.

Some Predictions Fulfilled

In the spring of the current year the writer spent some time at the company's plant at New Brunswick, New Jersey. Then (in the April 14 issue of this publication) I told how the interests behind Wright-Martin foreseeing the coming need of a military motor in this country, had gone abroad and succeeded in obtaining the American rights on the Hispano-Suiza motor, largely used by the French and Italian governments and regarded by experts as one of the best if not the best fighting motor yet developed. With the plans of the foreign motor in hand and with experts from Barcelona on hand to advise, it would appear that the task of turning out the Hispano-Suiza motor presented no great difficulties. But that supposition well illustrates the wide difference which must always exist between theory and practice. With an adequate plant, working capital apparently sufficient for all requirements, plans in hand, expert advisors from the home plant and daily communication with that plant, the best that Wright-Martin could do was to manufacture the new motor in small quantities from the tools in about a year and a half from the time work was commenced. Doubtless many mistakes were made that were perhaps avoidable—as seen in retrospect—but the fact remains that the Hispano-Suiza motor represented an advance in motor construction so far ahead of anything that had been attempted in this country that the Wright-Martin organization had to sit down and *learn* how to make this new machine. It took only one day at the plant and an inspection of this wonderfully light and wonderfully powerful motor to show me what the task of its production in quantity amounted to, and to convince me that output requires time, money and brains and a large amount of each. And I am willing to make a small wager to the effect that there is no organization in the country today, outside of Wright-Martin, that can make the Hispano-Suiza or one equal to it *from the tools,* i. e. in quantity, in less than a year's time even though given the full advantage of Wright-Martin's experience along that line.

An Interesting Tale

The account which recently appeared in all the public prints to the effect that a half dozen of the country's leading inventors and engineers had locked themselves in a room at the Willard Hotel and working sleepless, unshorn and on short rations for several days had succeeded in evolving an aeroplane motor which equals, if not excels, anything produced in this country or in Europe, makes good reading but challenges the credulity of those who know about aeroplanes.

There is reason even in miracles.

In my analysis of the Wright-Martin situation last April I called attention to the fact that the major part of the operating difficulties had been overcome. At that time the company had not only succeeded in demonstrating that it could turn out a satisfactory Hispano-Suiza motor from the machines but was approaching the point where production would soon be a motor a day. I pointed out that the Achilles heel of bad management had been rectified, but that the company was in need of further working capital and in addition, an organization of the size of Wright-Martin, in order to meet with success, required a "program," that is to say, an assured volume of business sufficient to allow it to operate at somewhere near capacity and hence economically. I said in my conclusion: "The future of the company lies in Washington, and it would appear that there are excellent prospects for a very sizable order from the Government. That the Government plans to go into the matter of aerial preparedness is a foregone conclusion and the amounts to be spent on that end of the service are estimated as high as $100,000.000. (At that time there was no thought of war.) Of course the company could hardly expect to make as large a profit from the Government as from commercial sales, but at the same time it would not be fair or reasonable for the Government to expect to purchase at prices which would not allow a good return on the invested capital."

The sale of new stock to the stockholders at $5 per share provided the working capital required for ordinary purposes and at the present time the company has approximately $2,000,000 of cash on hand. Arrangements have been made whereby the Government will make advances on its purchases so that the company should not need to do any further borrowing to take care of the big Government contract.

What the Government Contract Means

The contract awarded to Wright-Martin by the Government calls for 4,000 200 h. p. motors and 1,000 150 h. p. motors and the order aggregates approximately $28,000,000 gross. The company will figure its costs subject to Government visé and on costs will be allowed a profit of 15 per cent. Furthermore, the company in addition to its 15 per cent profit will receive 25 per cent of savings effected if costs are kept below a certain prescribed figure.

The Government order means that Wright-Martin is assured of at least a year's program with an assured profit of 15 per cent on its manufacturing costs and that further orders will follow as soon as the company is able to handle them. Profits on this initial Government order are estimated at between $5,000,000 and $6,000,000, so that after allowing for dividends on the preferred and a year of accumulated unpaid preferred dividends, there being no bonded debt, there should be at least $4,500,000 remaining for the common stock or between $4 and $5 per share. The company's profits, of course, will be subject to the war taxes.

Conclusion

Compared with a year or even a few months ago, Wright-Martin is now on firm footing. The preferred stock with its accumulated dividends offers, at 55 per share, excellent possibilities of appreciation although it is not likely to run strongly counter to the general market. The common is a speculation but an excellent one for those who hold with Wright-Martin's backers that the aeroplane industry in this country is but in its infancy stage and is now entering upon a period of great development.

COTTON AND WHEAT

Owing to the lack of general public interest in the cotton and wheat markets we have decided to discontinue temporarily our regular articles on those commodities. From time to time, however, we shall publish special articles dealing with those subjects and shall resume the regular articles when a revival of interest warrants resumption.—*Editor*.

Unlisted Security Notes

Aetna Explosives.—Former Governor Odell, one of the receivers, interrogated as to whether the duPont interests were seeking to acquire the Aetna's powder plants refused to deny or admit the offer. Net earnings in August were $583,761 and total profits, since Receivers Odell and Holt took charge are $2,231,817. On Sept 1, cash on hand was approximately $3,000,000, compared with $1,-105,861 on Aug. 1.

Bliss.—Announces regular quarterly dividend of 1¼%; an extra of 11¼% on the common; also the regular quarterly dividend of 2% on the pfd. stock.

Colts Fire Arms.—Confirmation has been obtained of the purchase of the Meriden plant of the New England Westinghouse Co. The price involved is understood to be $1,-000,000.

Cramp & Sons.—Reports Government contract received for 15 destroyers similar to eight vessels now under way, at a cost of $19,000,000.

Curtiss Aeroplane.—It is stated has in excess of $50,000,000 orders on its books and that the Willys order is larger than expected; and that assurance had been given that the plants of this company would work at capacity until the termination of the war as a result of the closing of contracts with the United States Government. It has nearly $60,000,000 business and plans to handle $150,000,000 before the summer of 1918. The company is understood to be common.

Gillette Safety Razor.—Offered $6,000,000 five-year 6% convertible gold notes, dated Sept. 1, 1917, and due Sept. 1, 1922 at 95 and interest yeilding 7.20%. The notes in denominations of $500, $1,000 and $10,000, are redeemable in 60 days' notice at 105 and interest. They are convertible into stock at any time up to 30 days before maturity at the rate of 10 shares of stock for each $1,000 par value of notes. Announcement was made of the offering of stock of the company to the public at $80.

Great Atlantic Tea.—Sales for the first six months of the year are $58,048,477, against $33,326,938 for the corresponding period of 1916, an increase of $24,721,539, or over 74%. Continuing at this rate sales for the full year would be in the vicinity of $116,-000,000, a record business, as compared with $74,350,000 for the previous year.

Federal Dyestuff.—John W. Herbert and Frank H. Platt have been appointed receivers. Company was incorporated in June, 1916, as a successor to the Federal Dyestuff & Chemical Co.

Hendee Manufacturing.—Treasurer authorized by directors to purchase one share of pfd. stock out of every five shares at $100 per share, provided the stockholder purchases one share of the pfd. stock of Wire Wheel Corp. of America at $100 for each pfd. share, together with the one share of common. In other words, the treasurer gives one share of Wire Wheel Corp. pfd. and one share of common for each pfd. share of the Hendee Company.

Milliken Bros.—Dividend of $10 a share to pfd. shareholders, payable Oct. 1, is the first paid in the liquidation following the sale of plant in July to Downey Shipbuilding Corp.

Perlman Rim.—Getting started on production schedule, has come under the active supervision of Pres. Sloan, of United Motors, as a consequence of retirement of Louis Perlman; is expected to do a gross business in 1917 of $4,000,000.

Swift.—For Sept. 30 year believed to be in line to realize profits of about $30 per share. In the 1916 year on $75,000,000 stock balance of $27 per share was earned. This fiscal year dividends and earnings are computed on $100,000,000 stock. Stated the company has a surplus of close to $50 per share.

Winchester Arms.—With practically six months to maturity the $16,000,000 2-year 5% notes are selling on a 12% basis. This means a price of about 97, so that the actual quotation is not so disturbing as the income basis. It is understood that for the year to Feb. 1, 1918, net profits are likely to run between $5,000,000 and $6,000,000.

Wright-Martin.—At the annual meeting the two vacancies on the board were filled by the election of Marshall J. Dowge and George W. Goethals. Glen Martin is no longer a director, his resignation having been accepted earlier in the year. Gen. Gothals said after the meeting: "My acceptance is from a sense of duty and for such time that I can be helpful or during the period of the war."

Union Carbide & Carbon Corp.—Organized in New York, with a capital of 3,000,000 shares of stock all of one class, without nominal par value, to take over the Union Carbide Co., National Carbon Co., Inc., Prest-O-Lite Co., Inc., and the Linde Air Products Co. Stockholders of the Union Carbide Co. are offered 2½ shares of the stock of the new company for each share of their present holdings. Two shares of new stock will be given for each share of Prest-O-Lite stock and stockholders of the Linde Air Products, for each share now held, will receive 3¼ shares of the new company. Myron T. Herrick will be chairman of the board of the new corporation and George O. Knapp, president. Other directors are C. K. G. Billings, Charles A. Coffin, Jesse J. Ricks, Andrew Squire, Nicholas F. Brady, G. W. Davison, Conrad Hubert, James Parmelee, Roger C. Sullivan, F. C. Walcott and James N. Wallace.

TOPICS FOR TRADERS

Is the Bear Market Near an End?

Usual Length of Bear Markets—The Decline of the Rails —What Present Indications Portend

By T. L. SEXSMITH

DURING the memorable months of September, October and November, 1916, million share days in the stock market were the regular thing, and the day which failed to produce a million shares or more was considered a dull day. The extent of the distribution of stocks accomplished during this period of tremendous activity in the market is difficult to measure, but a safe conclusion would place this distribution second only to that which occurred in the wonderful boom days of 1905 and 1906.

There can be only one sequence to an extensive period of distribution, and that is a gradual decline in the market price of securities. The decline following the distribution of the fall of 1916 in its earlier stages was indeed rapid. Within two months after the decline had started practically the whole gain for the year 1916 had been written off the books. Up to the present writing, making due allowance for the rallies which have intervened, the main trend of the market has been downward since the twentieth day of November, 1916.

Rails Have Greater Decline

Dividing the market into the two usual divisions, railroads and industrials, it will be seen that the decline has been proportionately larger in the railroad group than in the industrial group. In round figures, the high of the well-known twenty rail averages for the year 1916 was 112. In the latter part of September, these averages had declined to 86, which, in comparison to low points of other years, was more than three points below the low of the panic year of 1903, and approximately three points above the extreme of another panic year, 1907. When the market closed in 1914, on account of the outbreak of the war, the rail averages were at 90. The unofficial market, which was established on New street, saw gradually lower quotations for all stocks dealt in, and a compilation of the figures which were published in the daily newspapers during the period shows that the average quotation for the twenty rails gradually worked below 83. If we are to credit these prices, then, it is seen that the rails are now practically at the lows of three important depression periods in contemporary market history.

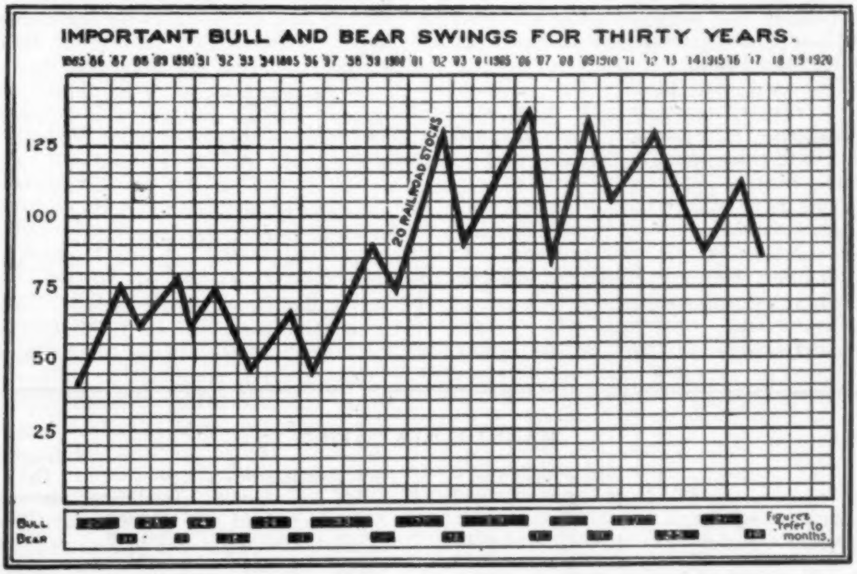
Rails Lose Speculative Standing

All are familiar, to a certain extent, with the causes contributing to the depression in rails. In the first place, government regulation of rates, as developed during the past decade, has removed the speculative possibilities in the railroads. Speculation, in order to have full play, must allow a wide scope for the employment of the quality of imagination. Speculation deals with possibilities; investment with facts, That is, perhaps, a fine distinction between the two. No longer is it possible to apply speculative imagination to the rails. Within the last few years the industrial group has furnished ample field for the employment of speculative talent, while the rails have lost in public favor.

The great bull market of 1915 and 1916 was based upon the huge war profits accruing to corporations which had secured Allied war orders, or which were engaged in the production of the various basic materials needed in the manufacture of munitions of

war. To an important extent, the large crops of 1915 and the ample ones of 1916, together with the extraordinarily high prices received for these crops, were responsible for the bull movement by reason of furnishing a substantial basis upon which the movement might be built and its maintenance assured.

Taking the average lows established in the unofficial New Street market in 1914 as a basis, an average of industrial stocks had advanced forty-four points at the high point of November, 1916. At the September, 1917, low point, these averages had declined twenty-nine points from their top. More than one-half of this decline was registered during the month of December, 1916, the first month of the reaction. Altogether ten months have been used in reaction since the making of the high prices in the fall of 1916, so it is readily seen that the latter part of the decline has been relatively slow work.



IMPORTANT BULL AND BEAR SWINGS FOR THIRTY YEARS.

Bear Markets Shorter

Searching the past history of the market for precedent, we find that bear markets, as a rule, seldom, if ever, continue longer than one year. In the past, bull markets have extended about twice as long as bear markets. Several have extended considerably longer than the average ratio.

A review of bull and bear markets from 1885 to the present is interesting at this time. From 1885 to 1887 there was a twenty-two months' upward swing of the twenty rails. From 1887 to 1890 there was an eleven months' downward swing, and in the same period a twenty-five months' upward swing. From 1890 to 1891 there were seven months of downward movement and fourteen months of upward movement. From 1891 to 1895 there were eighteen months of reaction and twenty-six months of advancing prices. In the period from 1895 to 1899 there were eleven months of declining prices and thirty-three months of advancing prices. Again, between 1899 and 1902, there were eight months of reaction and thirty-three months of bull market. 1902 to 1906 yielded twelve months of bear market and the record-sized bull campaign, which used thirty-nine months. The period 1906 to 1909 had eleven months of reactionary market and twenty-one months of advance.

1909 to 1912 yielded eleven months of decline and twenty-five months of rally, although the rallying period was interrupted, in the fall of 1911, by two months of exceedingly sharp reaction.

A Long Bear Market

The longest bear market known, as far as the records go back, was that which began in the fall of 1912 and did not end until the market reopened for business in December, 1914. This movement extended twenty-five months in all, counting the period during which the market was closed, but during which an unofficial market was maintained on New Street for a large part of the time.

This long bear market was followed by twenty-two months of aggressive bullishness, all of which is of such recent date that its main features are, no doubt, familiar to most of my readers. As has been said, the top of the bull movement was reached during November, 1916. So far the present bear movement has continued practically one-half as long as in the previous bull swing. That constitutes the normal proportion between upward and downward swings. According to precedent the end of the bear movement should not now be far away. It has at least reached a point at which large interests, doubtless, are satisfied to begin an extensive accumulation of securities by entering scale orders to purchase on the way down. Investors, not including the bargain-hunting aype, can keep a weather eye out for good, dividend paying stocks which may, from time to time, be forced upon the market.

The day of the "dyed-in-the-wool" bargain hunter is not yet. All may not be able to get in at the bottom, but all bargains are not offered on purely bargain days.

Marking the Real End

While there has been no development as yet of sufficient importance to mark a final turning point in the movement, there are signs that its occurrence should be seen before many months have passed. A series of million share days marked the top of the previous boom. Something like that may be expected before the real ending of the present grand downward swing.

MARKET STATISTICS

		Dow Jones Avgs.		50 Stocks			Breadth
		20 Indus.	20 Rails	High	Low	Total sales	(No. issues)
Monday,	Sept. 24	85.70	88.03	75.58	74.35	658,100	179
Tuesday,	" 25	86.02	89.08	76.42	75.12	852,900	214
Wednesday,	" 26	84.61	88.23	75.59	74.84	560,800	174
Thursday,	" 27	84.60	88.12	75.27	74.62	401,100	178
Friday,	" 28	83.46	86.30	74.71	73.47	488.600	194
Saturday,	" 29	83.81	86.55	74.10	73.44	203,800	130
Monday,	Oct. 1	83.58	85.66	74.60	73.36	572,400	170
Tuesday,	" 2	83.49	85.20	73.82	72.63	660,100	200
Wednesday,	" 3	82.45	85.03	73.63	72.49	521,100	187
Thursday,	" 4	80.62	84.46	72.81	71.45	850,800	228
Friday,	" 5	81.75	85.81	72.70	71.35	781,100	228
Saturday,	" 6	81.35	85.88	72.96	72.37	222,100	148

Tidal Swings of the Stock Market

Part III—Relation Between Money and Stocks—A Logical Similarity in Swings—How Money Rate Has Indicated Trend of Market

By SCRIBNER BROWNE

(Author of "How to Read the Financial Page," Etc.)

IN the first chapter I explained the meaning of the term "tidal swings," showed that they do, as a matter of fact, occur with a certain rough regularity, and briefly indicated the directions in which we may reasonably look for the causes of these broad movements. And since all price changes must necessarily be a result of demand and supply, I discussed in the second chapter the nature and special characteristics of demand and supply as we see them in the stock market.

In examining into the causes of tidal swings, it must be understood that we are dealing for the most part with what might be called "secondary" causes—that is, with factors which are interdependent, in the sense that each one influences all the others.

If we try to get down to the primary or fundamental cause of the tidal swing in stock prices, we enter the realm of psychology, where it is impossible to apply any definite standards of measurement. Ultimately, stock prices are made by the minds of men, and most minds are superficial—liable to be influenced by appearances rather than fundamentals, or to "make the worse appear the better reason," as one Socrates remarked some years ago. Incidentally, this accounts for the fact, often noticed by members of the exchanges, that the most successful stock speculator is not the deep man but the ready man—the man who is skillful at perceiving, from whatever source, the drift of speculative sentiment, right or wrong.

The word pyschology has been overworked of late and for that reason may bring a smile from "practical men," but there is no doubt of its importance as an element in speculation, and fundamentally the tidal waves in prices and business conditions are due to certain mental limitations or misconceptions of people in general which can hardly be described in any other way than as "psychological." This phase of the subject will be taken up in a later chapter. In the mean time let us begin with some of the factors which are logically related to stock prices and which are capable of being recorded in figures and may therefore be spread out and examined over a series of years.

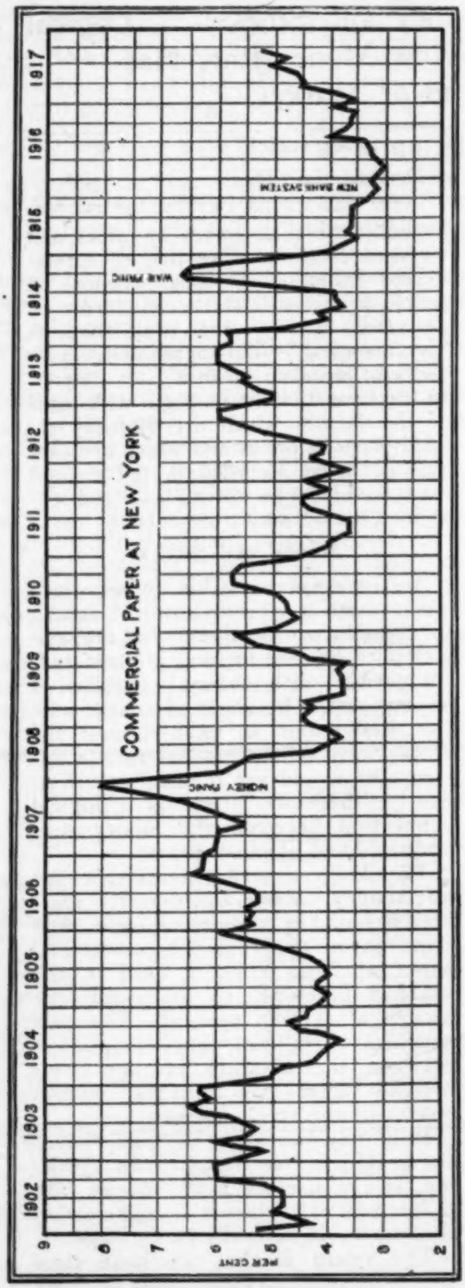
Money and Stocks

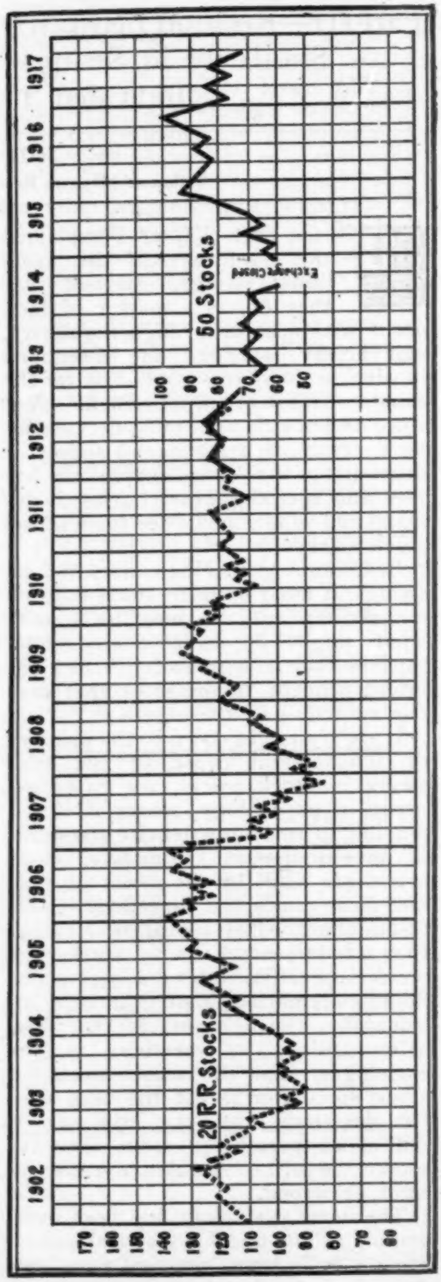
An investor puts his money into stocks with a view to interest return (present or prospective). His real object is to get the highest interest rate compatible with safety. Instead of buying stocks he could of course lend the money out at interest, and the money rate represents the rate of interest he would get in that way. Evidently, therefore, there is a logical connection between the money rate and the level of stock prices.

The longest term investment for idle money outside the security markets is found in commercial paper. For that reason the rate for commercial paper at New York is used in the graphic herewith to represent the money market in general. The two graphics permit an easy comparison between the monthly average commercial paper rate and the general course of the stock market.

It is only necessary to glance over the graphic to see that, broadly speaking, stocks rise when the money rate is low and fall when it is high, which is what would naturally be expected.

The result is that we have tidal swings in money rates similar to those in stocks.


COMMERCIAL PAPER AT NEW YORK
1902
1903
1904
1905
1906
1907
1908
1909
1910
1911
1912
1913
1914
1915
1916
1917
MONEY PANIC
WAR PANIC
NEW BANK SYSTEM
PER CENT


20 R.R. Stocks
50 Stocks
Exchange Closed
1902
1903
1904
1905
1906
1907
1908
1909
1910
1911
1912
1913
1914
1915
1916
1917

In the sixteen years shown on the graphic, there have been two cases of panic which have carried money rates out of their natural course. The first was the money panic in the fall of 1907, when commercial paper rose to 8 per cent.—a rate which, under modern business conditions, could be due only to fear. (It must be borne in mind that we are dealing with the rate on strictly prime paper at New York. Rates on inferior paper or in some of the more distant sections of the country would naturally be higher.)

The second instance of abnormal rates was in the War Panic of 1914 when 7 per cent. was touched, although the average for any one month was not higher than 6⅝.

These panic rates for money represented a sort of temporary aberration from the course of the tidal swing.

The smaller fluctuations in the commercial paper rate are mostly due to seasonal conditions. Money is naturally higher in the fall when the crops are being moved than it is in the winter and spring, when business is less active. These seasonal changes can be eliminated, or compensated, by a method of averaging, if desired, but that is unnecessary for our purpose.

Money as a Guide

Making a closer comparison, we note that the highest point of the money rate corresponds pretty closely with the lowest level of stock prices, but that the lowest point of the money rate does not coincide with the highest stock prices.

This difference is due to speculation. When stocks are falling public speculation is at a low ebb and prices are made by investors, who have an eye chiefly to interest return. But a bull market is accompanied by growing speculation, so that when stocks are high, prices are made largely by speculators, with whom interest return is only a minor factor. Hence the money rate has its most direct influence at the end of a bear market, and only an indirect and partial influence when stocks are high.

Nevertheless, a rising money rate will eventually check speculation. In 1902 the 6 per cent. rate for commercial paper marked the end of the bull market, and in 1906 the highest average of stock prices was in January after money first touched 6 per cent. in December, 1905. In December, 1909, the 6 per cent. rate was touched, although the monthly average was 5¾ per cent., and the same rate marked the culmination of the bull market of 1912.

In each of these cases, it will be noted, speculation was able to keep stock prices rising at the same time with the advance in the money rate, but it was not able to maintain the rise after the 6 per cent. rate was reached. Business requirements began to draw money away from the stock market, leaving the speculators suspended in air. Then relatively high money rates continued to prevail until the stock market was thoroughly liquidated.

Since 1914 the war and the new Federal Reserve Bank system have disturbed the natural swing of the money market. The flood of gold which flowed to our shores during 1915 and 1916, coming at the same time with a great reduction in the legal requirements for bank reserves, caused unprecedentedly low rates for money throughout the bull stock market which culminated in November, 1916.

In a word, during the war we have had a war market because the war was a more powerful influence than the money rate. After the war is over I see no reason to doubt that the relations between money and stocks will be similar to those that preceded the war. In fact, I should say that the money rate would be an even better guide than before the adoption of the Federal Bank system, for money panics will either be entirely obviated or greatly reduced in severity by the provisions of the new law.

We cannot now tell what the war, before it is over, may do to the money market, but European governments have succeeded in exercising control over their money rates and the Fed-

eral Board ought to be able to do the same in this country.

Difference Between Money and Capital

It is important to remember that a scarcity of capital for permanent investment is not the same thing as scarcity of money, although there is usually a close connection between the two. The term money, as we use it in discussing money rates, means *that fund of capital which is temporarily idle or available for short-term purposes.* It may or may not be available for permanent investment also.

For example, investors might be unwilling to invest their capital on less than a 6 per cent. basis; but that very fact might lead them to leave their money in the banks and the banks might lend it on call at 3 per cent. or in time loans at 4 or 5 per cent. It has frequently been the case that high interest returns on permanent investments have been temporarily accompanied by very low money rates. Such a disparity is always followed by a readjustment of both security prices and money rates, but in case of a world war like the present one, the readjustment might be long delayed. Under normal conditions, such a readjustment is nearly always accomplished in less than a year.

Briefly, then, stock prices are near the bottom when the commercial paper rate is highest; and a bull stock market cannot climb much further after the paper rate rises to 6 per cent.

A sharp fall in the money rate from a high level is usually followed by rising stock prices.

It is probably safe to say that a wide bull swing cannot be carried through without the aid of a low money rate; but we have seen that under war conditions, at any rate, a bull market may culminate before any considerable rise in the money rate occurs.

(The next article will take up the relations between stock prices and the bond market.)

COMMENTS

In an idle moment, while carelessly turning over the pages of an unfamiliar magazine, my eyes caught the following words in large type, "TO SLEEPING INVESTORS."

All day those words were before me; they would fade away, then return; they appeared in my dreams that night; then as in a flash my brain grasped the truth.

Those words meant me; I was a sleeping investor, not only sleeping but so wrapped up in my egotism that I was even snoring.

In my ignorance, like thousands of others, I had bought the stocks of corporations about which I knew absolutely nothing; so long as dividends arrived my confidence was complete, never questioning whether these dividends were honestly earned or honestly paid, whether the money invested was in safe hands or not.

Enough; that was nine months ago.

Detail would be tedious; suffice it that my first act was to subscribe for *The Magazine of Wall Street*, in which I had seen the words which had aroused me.

Each issue of the magazine, upon its arrival, was carefully studied; gradually my brain responded to its teachings, and today my money is in practically safe corporations, the principal is doubled and the dividends a little more than doubled.

In my heart is a deep and sincere feeling of gratitude towards those who have made it possible for others to awake and profit by the awakening.

* * * *

I have been a subscriber of your publication for some time and wish to express my approval of the publication in every way. I wish particularly to commend the editorials, which I have read carefully for many months.

* * * *

Recently, however, to see what the magazine was like, I bought a copy and found it so instructive on points that I have long wanted explained in detail as well as so interesting in other features, that I have decided to become a subscriber.

* * * *

Am a steady reader of your magazine, which I believe is the best financial publication printed.

* * * *

Your service is worth many times its cost.

Technical and Miscellaneous Inquiries

Crediting an Account with Dividends

Q.—As an occasional reader of your magazine, will you please answer the following questions, using enclosed stamped envelope for reply. I own ..ı margin 50 shares Southern Pacific Railroad stock bought at 92. If I should hold this stock until December 31 dividend period, would my broker credit on my account $6 per share?

Ans.—If you will have owned Southern Pacific for a year so as to be entitled to four quarterly dividends by December 31, your broker should have credited your account with a total of $6 by that time, provided, of course, that the last quarterly dividend is paid. In other words, it is customary for a broker to credit a margined account with dividends as they are paid.

How to Figure "Rights"

Q.—How do we arrive at figuring the rights on 50 shares of Midwest Refining, par value $50, subscriber being permitted to subscribe to one-fourth the par value of the shares at $50 each? Prompt answer will be appreciated. Midwest sold previous to subscription as high as 180, dropped to 160, sold ex-rights at 140, rights selling 20@25. Please explain.

W. G. KOLL.

Ans.—The "rights" that go with each share of Midwest Refining stock entitle the holder of each share to subscribe for one-quarter additional share at par $50; at this writing they are worth in the open market $23 each. If you have 50 shares of stock you will receive "rights" entitling you to subscribe to 12½ shares of new stock at $50. Roughly, these can be sold for 50 times $23, or $1,150, if you do not care to subscribe to the stock. A simple way to arrive at the value of your rights is to figure what your additional shares of stock, subscribed for at $50, could be sold for in the open market today, and what the profit would be on the transaction. For example, you can sell your twelve shares of stock, subscribed for from the company at a total cost of $600, for $140 a share, or $1,600, your profits being $1,000. The 48 "rights," which enable you to make this profit are obviously worth practically the entire profit or approximately $21 each. We have used round figures for the sake of convenience. Midwest Refining Stock is quoted to-day at 142, which accounts for the slightly higher price of 23 for the rights.

Income Tax Exemption

Q.—If the proposed War Tax Bill is passed, could a single person, who has a widowed mother dependent upon them for support, claim the $2,000 exemption, as the head of a family?

Ans.—As the head of a family supporting a mother, father or child, you can claim the $2,000 exemption.

Loaning Rates

Q.—I am enclosing a clipping from the *News Bureau*, and I *wish you would please advise me what an active trader would derive from the following*: Ches. & Ohio, 5½, C., M. & St. P. flat, L. & N.—N. H. 1-16 prem, and U. S. Steel Com. 6½, and oblige.

Ans.—The following quotation from the MAGAZINE OF WALL STREET answers your question about loaning rates on stocks:

Since there are always some people short of most of the active stocks, a great many certificates have to be borrowed every day by the various brokers. There is usually no difficulty about this. The broker who has a lot of stock certificates in his vault takes no particular satisfaction in seeing them there. On the contrary, he usually puts them up with his bank and borrows as much money on them as he can, which is perhaps 70 per cent of their market value, and he pays the current rate of interest for the use of the money. If another broker wants to borrow some of them, broker No. 1 says:

"All right, I will put them up with you instead of with the bank, if you will lend me their full market value at the same rate of interest."

There are generally plenty of stock certificates in Wall Street, but to borrow money it is necessary to pay interest; hence it is the lender of stocks that pays interest to the borrower on their money value, which is just the opposite from what the novice usually supposes. What borrowing stocks really means is lending money on the stocks as security up to their full market value. No one would be willing to do that except the broker who wants the certificates to fill some of his short sales.

In this way a regular loan market arises for the borrowing and lending of stock certificates, and the rate of interest allowed on the money value of the stocks may be quoted differently for different issues; accordingly those particular certificates are scarce or plentiful in the Street. If the certificates of a stock are plentiful, the loan rate on that stock will be the same as for call money, but if they are scarce the interest rate may be lower than the call money rate, or they may loan "flat"—that is, no interest at all is paid on the money which is loaned on the stocks as security—or even at a premium, which means that the usual order of things is reversed and the borrower of the stocks is obliged to pay something to get them.